



Office of State Tax Commissioner

Rick Clayburgh, Tax Commissioner

46th Biennial Report

**For the Biennial Period of
July 1, 2001 through June 30, 2003**





OFFICE OF STATE TAX COMMISSIONER
STATE OF NORTH DAKOTA

RICK CLAYBURGH
TAX COMMISSIONER

December 1, 2003

To: The Honorable John Hoeven Governor
The Honorable Al Jaeger, Secretary of State

It is with great pleasure that I submit for your consideration the Forty-Sixth Biennial Report of the Tax Commissioner.

The report covers the operations of the Office of State Tax Commissioner for the period July 1, 2001 through June 30, 2003, and is submitted pursuant to North Dakota Century Code §§ 55-06-04 and 57-01-02.

Sincerely,

A handwritten signature in black ink that reads "Rick Clayburgh". The signature is written in a cursive style with a large, stylized "R" and "C".

RICK CLAYBURGH
TAX COMMISSIONER

Table of Contents

I. The Office of State Tax Commissioner's Accountability and Customer Service Initiatives	1-2
II. Powers and Duties of the Tax Commissioner	3
III. Office of State Tax Commissioner Mission and Vision Statement	4
IV. Functions and Responsibilities of the Office of State Tax Commissioner's Divisions	5-11
A. Commissioner's Division	5-6
B. Operations Division	6
C. Legal Division	6-7
D. Fiscal Management Division	7
E. Sales and Special Taxes Division	7-8
F. Income and Oil Taxes Division	8-9
G. Property Tax Division	9-10
H. Organizational Chart of the Tax Department	11
V. Future Directions: Tax Legislation Enacted During the 2003 Legislative Session	12-13
VI. Comparative Statement of Net Tax Collections for the 1999-01 and 2001-03 Biennia	14
VII. Tables of Tax Collections	
A. Statement of Tax Collections for Fiscal Years 2002 and 2003	15
B. Net Collections for Fiscal Years Ended June 30, 1994-2003	16
C. Statewide Sales and Use Tax Statistics by Business Sector	17
D. Sales and Use Tax Collections and Revenue Distributions	18-19
E. Net Individual and Corporate Income Tax Collections	20
F. Oil Production and Oil Price Trends: Calendar Years 1992-2002	21
G. Oil Tax Collections 2001-03 Biennium	21
H. Oil and Gas Gross Production Tax and Oil Extraction Tax	22
I. Coal Conversion Tax Revenue Distributions	23
J. Coal Severance Tax - Taxable Tonnages and Revenue Distributions	24-25
K. Transmission Line Tax Collections	26
L. Rural Electric Cooperatives and Telecommunications Carriers	26
M. Financial Institutions Tax	27
N. Cigarette and Tobacco Products Net Tax Collections	28
O. Airline Tax	28
P. Aviation Fuel, Special Fuels, and Motor Vehicle Fuel Taxes	29-30
Q. Sources of General Ad Valorem Property Taxes, Special Property Taxes and Special Assessments	31
R. Distribution of General Ad Valorem Property Taxes, Special Property Taxes and Special Assessments	32
S. Property Tax Refunds & Credits For Senior Citizens and Persons with Permanent and Total Disabilities	33
T. State General Fund Revenues and Expenditures in the 2001-03 Biennium	34
VIII. Statement of Office of State Tax Commissioner Expenditures	35
IX. Resources Available from the Office of State Tax Commissioner	36

The Office of State Tax Commissioner

Accountability and Customer Service Initiatives

History of the Office of State Tax Commissioner

The Office of State Tax Commissioner has been a separate agency since 1912. Prior to 1912, the State Auditor handled some of the functions now performed by the Tax Commissioner. From 1912 to 1919, the Governor appointed a three-member nonpartisan Tax Commission to administer the tax laws of the state. As a result of a special election in 1919, the three-person tax commission was changed to a single Tax Commissioner whom the Governor was given the authority to appoint with consent of the Senate. A constitutional amendment adopted June 28, 1938 changed the Tax Commissioner post to an elective office with a term of four years. The measure also stipulated that the Tax Commissioner should be elected on a no-party ballot and that the first Commissioner would not be elected until the 1940 General Election. In 1987 the Tax Commissioner was removed from the no-party ballot. Of all 50 states, North Dakota is one of only three states in which the Tax Commissioner is elected.

Even though the legislation that created the commission allowed hiring a secretary, the Tax Commission budget was insufficient to support the position. The first department staff member was hired in 1913 and by 1928 the Department had grown to 12 employees. The Tax Department continued to grow as the state's population increased, as new tax types were added, as tax laws became more complex, and as new services were provided. By 1995 the number of employees peaked at 157.

In recent years, staff numbers have been reduced through attrition, through streamlining duties, and by finding efficiencies within the department as well as through effective utilization of technology. In 1995 the number of permanent positions was at its all time high of 157 employees. During the 2001-03 biennium, the Office of State Tax Commissioner was authorized 143 permanent staff members – a reduction of 14 positions from the 1995 peak.

The Office of State Tax Commissioner Accountability and Customer Service Initiatives

The Office of State Tax Commissioner is serious about its responsibility to North Dakota's citizens. The department is committed to improving customer service and increasing productivity while reducing costs. Several projects and technology-related initiatives undertaken by the department have helped the Tax Department continue to improve customer service. The following list identifies the department's accomplishments during the 2001-03 biennia:

Technology Initiatives to Improve Productivity and Enhance Service

Providing exceptional customer service is one of the major goals of the Office of State Tax Commissioner. Through increased use of technology, the department has been transformed into a more productive and customer service-driven agency. During the 2001-2003 biennium, several technology-related initiatives were implemented:

- Implemented the Electronic Document Management System (EDMS) project—a partnership between the state Information Technology Department (ITD) and the Office of State Tax Commissioner that allows a cost sharing of the initial purchase cost and enables the state ITD to provide the same high-quality, cost-efficient service to other state agencies.
 - EDMS provides electronic document storage and includes tools to improve form processing. These tools recognize the tax form as it is scanned into the system, process the data entered on the tax form and electronically stores the data.
 - EDMS enables the Tax Department to reduce or eliminate manual data entry; reduce the need for paper storage and physical filing space; and process tax returns faster.
 - The Individual income tax return (Form ND-1 and Form ND-2), Sales Tax Return (Form ST), estimated and extension income tax payment vouchers for individual, and corporation income tax have been designed for EDMS processing. Other tax forms will be added.

- Moved the Tax Department processing center into the State Office Building. This provides the department with a single location in which to process tax returns. As a result, returns are processed faster and more efficiently.
- Implemented new desktop auditing application.
- Utilized the National Change of Address (NCOA) process to reduce postage costs.
- Partnered with the Bank of North Dakota to offer taxpayers a credit card payment option. The Bank of North Dakota serves as the credit card clearinghouse provider.
- Redesigned the Department's Web site architecture and navigation to accommodate ADA requirements, to expedite access to department forms and publications, and to allow internal maintenance of the Web site.
- Began converting Web-based tax forms to "fill and print" documents. This provides taxpayers the option to download the form, enter the data, print out the form, and mail to the Tax Department.
- Added an electronic filing service for all licensed motor fuel dealers to file their schedules of gallons received and dispersed.
- Added an electronic filing service for Financial Institution Tax (FIT).
- Added an Electronic Funds Transfer (EFT) option for reporting income tax withholding.
- Added a Voluntary Disclosure procedure to allow corporations that have been conducting business activities in North Dakota but not remitting taxes to voluntarily come forward and resolve potential tax liabilities. The Voluntary Disclosure program allows such companies to seek resolution with the Tax Commissioner for income tax, sales tax, and withholding taxes.
- Developed a Sales Tax Geographic Information System (GIS) to be offered on our Web site. *The system became operational shortly after the end of the 2001-03 biennium.* The GIS offers a convenient electronic resource for anyone who wants to identify local sales and use tax rates by using a city or address lookup. Users are able to simply enter a particular city or address to identify applicable state and local sales tax rates on sales.

Department Reorganization

As part of the Tax Department's mission to fairly and effectively administer the tax laws of North Dakota,

the Tax Department conducted a workflow analysis and process improvement study of its 30-year old organizational structure. The goal was to define a department that is more efficient and effective and places major emphasis on good customer service. Through the study, the department was able to determine which functions within each division might be enhanced, streamlined, or otherwise modified to ensure fulfillment of the department's mission, vision, and guiding principles.

As a result of the study, the Tax Department restructured the organization into one that allows the department to realign key processes and organizational units. The end result is a department that is more customer centric in the delivery of services.

Customer Service Initiatives

The Office of State Tax Commissioner's top priority continues to be focused on providing taxpayers with excellent customer service. During the 2001-03 biennium, each division within the Tax Department continued to pursue various customer service-related projects, including:

- Conducted various seminars and workshops regarding North Dakota's taxes.
- Designed new forms and redesigned old forms.
- Worked with other state agencies to assist taxpayers in reporting taxes.
- Assumed administration of new taxes.
- Implemented changes for tax laws and local taxes.
- Developed new programming and electronic filing for taxpayers to use when reporting taxes.
- Updated manuals, forms, tax return processing, and programs.
- Provided taxpayer assistance.
- Created a new section to coordinate and manage the department's public communications.

Processing Team

A Processing Team, consisting of members directly involved in the processing of Individual Income Tax returns, reviews the past season's process to identify and implement improvements for the next season and identify goals. The combination of the processing goals, scanning and imaging system, and help desk resulted in taxpayers receiving exceptional customer service through faster and more accurate processing of tax returns and quicker payment of refunds.

Powers and Duties of the Tax Commissioner

1. Shall perform all the duties with which he/she is charged.
2. Shall exercise general supervision over all assessors of general property or other taxes, township, county, and city boards of equalization, and all other assessing officers in the performance of their duties. All assessments of property shall be made relatively just and equal in compliance with the laws of this state.
3. Shall direct actions and prosecutions to enforce the laws, penalties and punishments of persons for failure to comply with the provisions of tax law. The Tax Commissioner shall cause complaints to be made against officers for neglect or refusal to comply with the law, and generally shall enforce all tax proceedings and revenue laws of the state in the proper court.
4. May require county state's attorneys to assist in the commencement and prosecution for the violation of any tax laws.
5. May require township, city, county and other public officers to report information regarding the assessment and collection of property and other taxes, receipts for taxes and other sources, the expenditure of public funds and other information in the administration of tax laws in a form that he/she may prescribe.
6. May summon witnesses to appear, give testimony, produce books, records, papers and documents relating to any matter which he/she or the state board of equalization may have authority to investigate or determine. The Tax Commissioner may cause the depositions to be taken like depositions of witnesses are taken in civil actions in the district courts.
7. May require a reassessment of property in any county to be made in accordance with N.D.C.C. ch. 57-14 whenever deemed necessary, or may require county auditors to place on the assessment rolls property which may be discovered and which has not been taxed according to law.
8. Shall examine all cases where evasions or violations of the laws of assessments and taxation are alleged, complained of, or discovered, and shall ascertain if existing laws are defective or are administered improperly or negligently.
9. Shall submit to the governor and the office of management and budget as prescribed by 54-06-04 the biennial report of the commissioner and the state board of equalization.
10. Shall visit other states and confer with taxing officials and attend tax or other economic conferences or conventions, in person or by his/her authorized agent.
11. Shall certify all levies, assessments, equalization, or valuations made by him/her or the state board of equalization, not more than thirty days after they have been made, or at periods otherwise provided by the law.
12. Shall have the power to execute reciprocal agreements with the appropriate officials of any other state. These agreements may waive all or any part of the tax requirements imposed by this state on gasoline or other fuels in the state of North Dakota, when the tax has been paid to the other state. The officials of the other state must grant the equivalent privileges with respect to gasoline or other fuels used in that state when the tax has been paid to the state of North Dakota.
13. May maintain an accounting system which includes a special category of accounts, designated as noncurrent accounts. The noncurrent accounts shall be the accounts which are uncollectible as a matter of law or those accounts where all reasonable collection efforts over a period of six years have produced no results. After examination by the state auditor, and upon his/her recommendation for cause, specific accounts may be removed by the commissioner from noncurrent status and all records pertaining to it destroyed.
14. May waive, upon a showing of good cause, any and all tax due. A lien must have been filed against the debtor's property and the attorney general must approve the waiver. Further, a debtor's individual income tax liability may be reduced based upon a federal offer in compromise.
15. May allow a taxpayer to pay a tax liability to the state electronically no later than the date the payment is required by law to be made.

Specific duties assigned to the Office of State Tax Commissioner are set out in N.D.C.C. Title 57, and the general powers and duties in N.D.C.C. § 57-01-02.

The North Dakota Office of State Tax Commissioner

Mission Statement

The mission of the Office of State Tax Commissioner is to fairly and effectively administer the tax laws of North Dakota.

Vision Statement

The vision of the Office of State Tax Commissioner is to instill the highest degree of public confidence in our integrity and reliability by providing prompt, accurate and courteous service while promoting compliance with the tax laws of North Dakota.

Guiding Principles

We treat our customers as we would want to be treated.

Customer service comes first. The public, other government officials and our coworkers are our customers. Conduct business in a courteous, dependable and professional manner. Anticipate the unexpressed needs of our customers.

We extend cooperation and assistance to fellow public servants.

Be consistent and accountable in our relationships with legislators, government officials and government personnel. Strive to earn respect for ourselves and elevate the public perception of all state employees.

We uphold the Taxpayer Bill of Rights.

Recognize the rights of taxpayers. Provide an equal and meaningful opportunity for taxpayers to be heard. Educate taxpayers on their responsibilities and rights under North Dakota tax law.

We make wise and prudent use of all resources.

Take seriously the responsibility the citizens of North Dakota have given us. Improve service through the effective use of technology and other resources.

We recognize employees are our biggest asset.

Encourage personal and professional growth. Recruit and select well qualified employees based on high standards. Recognize the achievements of employees.

We recognize each individual's contribution to the team.

Explore and implement leadership styles that encourage teamwork. Foster a work climate which builds on team strengths while encouraging individual initiative. Acknowledge all coworkers as members of the same team.

We value those with whom we work.

Communicate with our coworkers in an open, honest and courteous manner. Respect our differences and consider the views of the entire staff.

Functions and Responsibilities of the Office of State Tax Commissioner's Divisions

The Office of State Tax Commissioner comprises six separate divisions. The Commissioner's Division is the administrative nucleus of the department. The Legal Division provides legal advice and counsel to the department and to the State Board of Equalization and conducts field inspections and fraud investigations. The Fiscal Management Division performs accounting functions, provides staff services and collects delinquent taxes. The Operations Division is responsible for processing tax returns, mail processing, central records, procurement, as well as leading the department's technology efforts. The Sales and Special Taxes Division, Income & Oil Taxes Division and Property Tax Division administer different state taxes under the direction of the Tax Commissioner. The following summaries provide more detailed explanations of the functions and operations of the Office of State Tax Commissioner's divisions.

Commissioner's Division

The Commissioner's Division has ultimate responsibility for the general administration of the department. It also serves as the department's primary research center, manages its personnel functions, and conducts studies as assigned by the commissioner on tax-related matters.

Tax Commissioner

The Tax Commissioner is the chief administrator of the department and final arbiter of its policies. The commissioner serves on several administrative boards related to the Office of State Tax Commissioner.

As secretary to the State Board of Equalization, which certifies tax assessments for public utilities whose properties lie within several taxing districts, the commissioner is responsible for determining the tentative valuation of those properties. The commissioner also oversees regular studies of real estate assessments done by the Office of State Tax Commissioner, studies which the State Board of Equalization may use in equalizing property tax assessments between counties and taxing districts.

The Tax Commissioner is a voting member of the Multistate Tax Commission. This organization through the cooperation of its member states, enhances the ability of state revenue departments to enforce compliance with tax laws applying to multi-state businesses.

Deputy Commissioner

The Deputy Commissioner assists the Commissioner in determining department administrative policy. The deputy supervises the development and implementation of effective personnel and fiscal management; facilitates management planning to determine current and future staffing needs; and serves as the division director for research, human resources, and communication. The deputy leads a department-wide effort to provide clear, concise and accurate information to all taxpayers through publications and news releases; serves as the commissioner's lead person in assuring good customer service; and is responsible for pursuing and implementing technology-related projects that enhance service and increase efficiency. The Deputy Commissioner also has an oversight responsibility for accounting, budgeting, training, and salary administration.

Research & Statistics Section

The Research and Statistics Section is involved in the preparation of revenue forecasts and other fiscal analyses. When requested by the Legislative Council, the section prepares estimates and projections of fiscal implications of all proposed tax legislation dealing with state revenues. The section also estimates the current and future fiscal impact of all administrative rulings proposed by the Tax Commissioner, maintains files of legislation affecting state tax revenue, and develops and maintains statistics on state tax. In addition, the Research and Statistics Section prepares and publishes the biennial report of the Tax Commissioner, statistical reports, and comparative analyses of tax collections.

The Office of State Tax Commissioner is responsible for preparing fiscal notes on proposals that affect various tax revenues. The responsibility of those fiscal note responses rests with the Research and Statistics Section. In addition to responses which must

be prepared during the Legislative Session, the department prepares fiscal note information for the Interim Committee on Finance and Taxation and responds to requests for fiscal information from individual legislators, businesses, and other government agencies.

Human Resources Section

Also within the Commissioner's Division is the Human Resources section. This section is responsible for recruitment of new employees and compliance with Equal Employment Opportunity regulations. Human Resources reviews position classifications, maintains employee records, administers the department's wage and salary plan and is responsible for hiring temporary employees during the tax processing season. Risk management, maintaining the Department's employee handbook and the Policies and Procedures manual each have a major role in the administration of the Department's performance management plan. And, these are additional duties that are carried out by the Human Resources Section.

Communications Section

The Communications area develops and maintains liaison with the public and the media providing information about the department's policies, programs, actions, services, and related tax matters. This section designs forms and publications for the Office of State Tax Commissioner and provides assistance with the management of the department's web site.

During the 2001-2003 biennium the Commissioner's Division included eight full-time positions which include the Tax Commissioner and Deputy Commissioner; a human resources officer, a research analyst, a public information specialist, an administrative assistant, and two office assistants.

Operations Division

The Operations Division includes five sections: Central Records, Data Entry, Information Services, Mail Center, and Procurement.

The Operations Division is responsible for procurement, project management and business process reengineering, mail processing, central records and the electronic document management repository, front-end tax processing including data capture and entry, and information technology management and development functions.

The Information Technology and Business Process Reengineering staffs are responsible for leading the Tax Department's technology efforts through increased oversight and guidance. Responsibilities include the management, security, and efficient processing of the department's various tax applications. Information technology staff support all Tax Department personal computers, servers, scanners, and Local Area Network; evaluate all hardware, software, and programming requests; retain and maintain computer system documentation; design, test, and implement new systems; control access to federally provided data; perform business and systems analysis; and provides Business Process Reengineering services. In addition, staff coordinate and manage electronic filing, scanning, automated data capture and 2D Bar code initiatives, and maintain the Tax Department's Web site.

The Mail Center, Central Records, Procurement and Data Entry staffs provide support services to the department. The Mail Center receives and fills orders for tax forms and booklets as well as processes all incoming and outgoing mail. Central Records is responsible for the safe and secure storage and retrieval of tax returns and related documents. Central Records staff is also responsible for the management of the Electronic Document Management System (EDMS). The Procurement function of this division uses technology to enhance the procurement process. The data capture staff keys or verifies data from various tax returns and tax related documents.

In the 2001-2003 biennium, the Operations Division included 25 full-time positions. Those positions include the director, one administrative assistant, one purchasing agent, five data processing coordinators, four mail center staff, five data entry staff, six central records staff, and three vacant positions.

Legal Division

The Legal Division provides legal advice and counsel to all divisions within the Office of State Tax Commissioner and the State Board of Equalization. The division's attorneys respond to inquiries from the Tax Commissioner, Tax Department staff, legislators, state and local officials, and citizens and prepare opinions on tax questions. They also review and draft department administrative rules under the provisions of the Administrative Agencies Practice Act, coordinate the

approval of those rules by the Attorney General, and file them with the Legislative Council.

During each North Dakota legislative session, the Legal Division develops and drafts bills for the Tax Commissioner to be presented to the Legislature and participates in the legislative hearing process. At the end of the legislative session, the division's attorneys interpret new or amended laws to aid the department in implementing those laws, and assist the Tax Commissioner in issuing rules, regulations or policies regarding them.

The Legal Division conducts formal hearings before the Tax Commissioner or his designated representative and represents the Office of State Tax Commissioner and the State Board of Equalization in litigation brought by or against either the department or the board.

During the 2003-2005 biennium the Legal Division included four full-time positions: three attorneys and one legal assistant.

Fiscal Management Division

The Fiscal Management Division of the Office of State Tax Commissioner consists of two sections: Accounting and Accounts Receivable.

Accounting Section

Acting as the department's center for business transactions, the Accounting Section prepares and maintains the accounting records of total revenue received, expenditures for payroll and accounts payable, and tax refunds. This section maintains fixed asset inventory records and determines level of insurance coverage.

The Accounting section prepares the Office of State Tax Commissioner's executive budget request and assists with biennial revenue estimates. This section also prepares the department's internal budget, analyzes and forecasts expenditures, and monitors and reports on budget performance. This section prepares reports and financial statements for management information and auditing purposes.

All records maintained by the Accounting Section are subject to audits by the State Auditor's office.

Accounts Receivable Section

The Accounts Receivable Section is responsible for collecting delinquent taxes on accounts referred by the division responsible for administering the tax.

Established procedures used for the collection of delinquent taxes include telephone and written communication with taxpayers and the mailing of final notices requesting payment of taxes.

If necessary, this section may resort to civil or criminal legal action. It is the policy of the Accounts Receivable section to initiate legal action only in those cases in which the taxpayer fails to respond to collection attempts. Taxpayers are always given ample notice and opportunity to comply with requests for payment of taxes.

In the 2001-2003 biennium, the Fiscal Management Division included 15 full-time positions. Those positions include the controller, one accounting/budget specialist, one collections supervisor, one compliance officer, six collections officers, four account technicians, and one office assistant.

Sales and Special Taxes Division

The Sales and Special Taxes Division includes three sections: Sales and Use Tax, Fuel Taxes & Miscellaneous Taxes, and Estate Tax.

Sales and Use Tax Compliance Section

The principal function of the Compliance Section is to administer the sales tax. This section provides walk-in and telephone assistance to taxpayers and handles e-mail and written correspondence. Responsibilities of this section include the review and approval of sales tax permit applications for retailers; assure all tax returns received are accurate and timely; conduct hearings and negotiate settlements; administer exemption application and compliance program; issue administrative tax rulings; provide newsletters, guidelines, rules and regulations for retailers and review compliance with sales tax regulations. This section implements various projects that identify non-filing or noncomplying taxpayers through the following programs: field visitation, special events project; nexus or discovery project; voluntary disclosure program; Canadian customs review project; contractors' clearance review project; and letters of good standing program.

The compliance section also administers the local sales and use taxes, motor vehicle excise tax, cigarette and tobacco taxes, city lodging and restaurant taxes, and Canadian refunds.

Motor Fuels and Miscellaneous Tax Section

The Motor Fuels Tax Section is responsible for administering, collecting and auditing motor vehicle fuel, special fuel, and aviation fuel taxes. This section also administers the motor vehicle fuel and aviation fuel tax refund programs.

North Dakota imposes a motor vehicle fuel tax on sales of gasoline and gasohol. Refunds are granted to consumers who used the fuel in nonlicensed equipment for agricultural, railroad, or industrial purposes. Refunds are also granted to political subdivisions using the fuel for construction, reconstruction, and maintenance of roads and highways, and on fuel used in miscellaneous nonlicensed equipment.

North Dakota imposes a special fuel tax on diesel fuels, heating fuels, kerosene, and propane. Kerosene and propane used in licensed vehicles and all clear diesel fuels is taxed differently than kerosene and propane not used in licensed vehicles and all dyed (red) diesel fuels. Dyed diesel fuels are intended for use as heating fuel and in nonlicensed machinery or equipment for agricultural, industrial, or railroad purposes. Special fuel taxes are not refundable.

North Dakota imposes a refundable tax on aviation gasoline and jet fuel. When the tax is refunded, a lower tax rate is levied in lieu of the per gallon tax and is deducted from the consumer's refund.

Other functions of the section include interpreting tax laws and issuing administrative rules; reviewing, issuing and revoking licenses and permits; and responding to taxpayer questions.

Estate Tax Section

The Estate Tax Section supervises North Dakota's tax on property transferred upon death. North Dakota's estate tax is entirely contingent on credits which the federal government allows on federal estate taxes. Specifically, the federal government allows a credit for state estate taxes paid, a credit which is applied against the federal estate tax. North Dakota law provides that its state estate tax will be equal to, but no more than, the credit allowed on federal estate tax returns. In other words, the estate will pay no more in North Dakota estate tax than it would otherwise pay in additional taxes to the federal government.

The North Dakota law requires the attorney for the estate to give the Estate Tax Section a copy of the federal estate tax return, which is verified to assure that

the federal credit is computed correctly. The section maintains estate tax records, and informs the public about estate tax laws, policies and procedures.

Alcoholic Beverages Tax Section

The North Dakota Legislature authorized a transfer in responsibility for the alcoholic beverage control laws to the State Tax Commissioner on July 1, 2001. The Office of State Treasurer formerly held this responsibility.

As a result of this change in responsibilities, the Office of State Tax Commissioner is responsible for the enforcement of the alcoholic beverage control laws, and the administration of the wholesale alcoholic beverage taxes. The oversight for this section has been assigned to the fuels tax supervisor.

The section issues licenses to wholesale business selling alcoholic beverages, registers brand product information, receives and processes tax returns, performs audits, publicizes tax rules and regulations, issues administrative rulings, and provides taxpayer assistance.

In the 2001-2003 biennium, the Sales and Special Taxes Division included 43 full-time positions. These included the sales and special taxes director, supervisor of motor fuels and miscellaneous taxes, field audit supervisor, sales tax compliance supervisor, four compliance officers, 21 auditors, one administrative assistant, one account technician, six audit technicians and six office assistants.

Income and Oil Taxes Division

The Income and Oil Taxes Division administers the corporate and individual income taxes, financial institutions tax, oil and natural gas gross production tax, and the oil extraction tax. The division is comprised of the Corporate Income Tax section, the Oil and Gas Taxes section, and the Individual Income Tax section.

These sections each receive and process tax returns, perform audits, and in the case of Individual Income Tax, conduct cross-checks of federal tax returns with state returns. They use various investigative means to identify non-filers, investigate reasons for not filing, and enforce filing requirements. Each section publicizes tax rules and regulations, issues administrative rulings, recommends tax law changes, revises tax forms and instructions to taxpayers, and monitors litigation.

Taxpayer assistance is also provided by each section. Tax clinics are conducted to provide

information on policy and legal changes affecting tax forms and filing requirements.

Corporate Income Tax Section

The Corporate Income Tax Section administers the state's income tax imposed on all corporations doing business in North Dakota. This section also administers the tax applied to financial institutions that are doing business in the state. A portion of this tax goes directly to the counties.

On average, 11,500 corporate income tax and 300 financial institution tax returns are processed each year by this section. Of these, an average of 1,400 report refund claims. Section staff spend over 60% of their time in audit and processing related activities. Over 600 hours of taxpayer assistance were provided in each year of the biennium.

The section's primary emphasis has involved the conducting of both office and field audits. In order to provide as much audit coverage as possible, the Corporate Income Tax Section relies, in part, on the Multistate Tax Commission cooperative program to perform field audits for both corporate income taxes and sales taxes.

In the 2001-03 biennium, the Section's auditing staff concluded 550 corporate income tax field and office audits. Those audits resulted in more than \$13.1 million in additional assessments.

Oil and Gas Taxes Section

The Oil and Gas Taxes Section is to administer the oil and gas taxes. This section's responsibilities include the assurance that all tax returns received are accurate and timely; provide newsletters, guidelines, rules and regulations; and perform audits, as well as cross-checks compliance reviews of oil and gas companies conducting business in the state. During the 2001-03 biennium, the auditing staff initiated 3 gross production and oil extraction tax audits and 7,530 compliance reviews that resulted in assessments of \$718,000. Total enforcement action collections for the biennium was \$4.79 million; this includes compliance and audit collections and an additional tax, penalty, and interest collections from billings on processed reports.

Individual Income Tax Section

The Individual Income Tax Section administers the state's income tax on individuals, estates, and trusts.

This section provides walk-in and telephone assistance to taxpayers and handles e-mail and written correspondence. Responsibilities of this section include

the oversight of a computerized tax processing system that provides for both paper and electronic filing of individual income tax returns, while maintaining a secure and confidential records processing system, and insures all tax returns are posted in an accurate and timely manner. In addition, the section performs audits, provides newsletters, guidelines, rules and regulations for taxpayers, and implements various programs that identify non-filing or noncomplying taxpayers.

The Individual Income Tax Section also administers the state income tax withholding law, which includes the registration of employers for withholding tax remittance, processing quarterly payments and W-2's, and identifying non-filing and noncomplying employers.

The compliance and audit activities conducted by this section during the 2001-2003 biennium netted more than \$9.7 million in additional assessments for individual income taxes.

During the 2001-2003 biennium, the staff of the Income and Oil Taxes Division included 39 full time positions: an income and oil taxes director, a corporate income tax supervisor, an oil and gas tax supervisor, and individual income tax supervisor, two compliance officers, 18 auditors, one withholding specialist, 11 audit technicians, an administrative assistant and one office assistant.

Property and Utility Taxes Division

The property tax is an important source of revenue for financing school districts, and county, city and township government. While local government units have the responsibility of assessing and taxing all classes of real property, the Office of State Tax Commissioner provides assistance to local government units to assure that the property tax is administered equitably throughout the state.

The Property Tax Division, under the direction of the State Supervisor of Assessments, works with local government to maintain equalization of property assessments among the various counties in North Dakota. To assure property tax equalization, the division performs annual ratio studies, which compare true and full value of real estate with the sale price of properties which have been sold. If significant assessment variations exist between counties, steps are taken by the State Board of Equalization to equalize those assessments. In addition, personnel from the division investigate individual assessments for the board and make detailed appraisals of complex properties when

the owners of those properties have appeared before the State Board requesting a review.

The Homestead Credit and Renter Refund Program is also administered by the Property Tax Division. Under this state-funded program, qualifying senior citizens and totally and permanently disabled persons receive a reduction of their property tax assessment or a partial refund of annual rent paid. The total amount of revenue lost to the local taxing districts by this reduction is reimbursed to them from the state general fund. Credits are allowed not only against real property tax assessments but against special assessments as well. Credits allowed for special assessments become a lien on the property. The division has the responsibility for monitoring the liens and for providing a release whenever the liens are satisfied.

Assisting the Tax Commissioner and the State Board of Equalization in making valuations of utility property for property tax purposes is the Utilities Tax Section. Most real property is assessed by local government. However, the property of railroads, airlines, public utilities such as electric and gas companies, and pipeline companies is assessed at the state level. The Tax Commissioner, utilizing appraisals by the Utilities Tax Section, makes tentative valuations and the State Board of Equalization sets the final assessed valuations. The section then certifies to each county the value placed on the railroad, utility, and pipeline property located within that county, and the tax is administered and collected by the local governments. The Utilities Tax Section collects the air transportation company tax and certifies the amounts to be distributed to the cities or municipal airport authorities where the air transportation companies made regularly scheduled landings.

The State Supervisor of Assessments has the statutory responsibility to certify that assessors and county directors of tax equalization have met minimum requirements. The certification process is administered by the Property Tax Division. The division also conducts seminars for local government officials to improve administration of the property tax and holds property tax appraisal schools for assessors and other local tax officials. Tax statutes are interpreted, legal questions are reviewed and analyzed, and information concerning changes in law or policy affecting property taxation is issued. The division acts as the liaison between local property tax administrators and state officials. While it does not directly administer the property tax, the division functions as a statistical and information resource center of communications among

all levels of government to maintain efficiency, promote uniformity and achieve equalization within the property tax system. The legislative philosophy regarding budgetary control of local taxing districts makes it necessary that the Property Tax Division develop maximum levy worksheets for use by the county auditors in determining the total dollar levy allowed each taxing district. Workshops conducted by division personnel provide county auditors with firsthand knowledge of the procedures that they must use.

The Utilities Tax Section administers and collects the telecommunication gross receipts tax imposed on the retail sale of two-way telecommunications services. A standing appropriation of \$8.4 million is distributed annually to the political subdivisions in lieu of property taxes on telecommunications property.

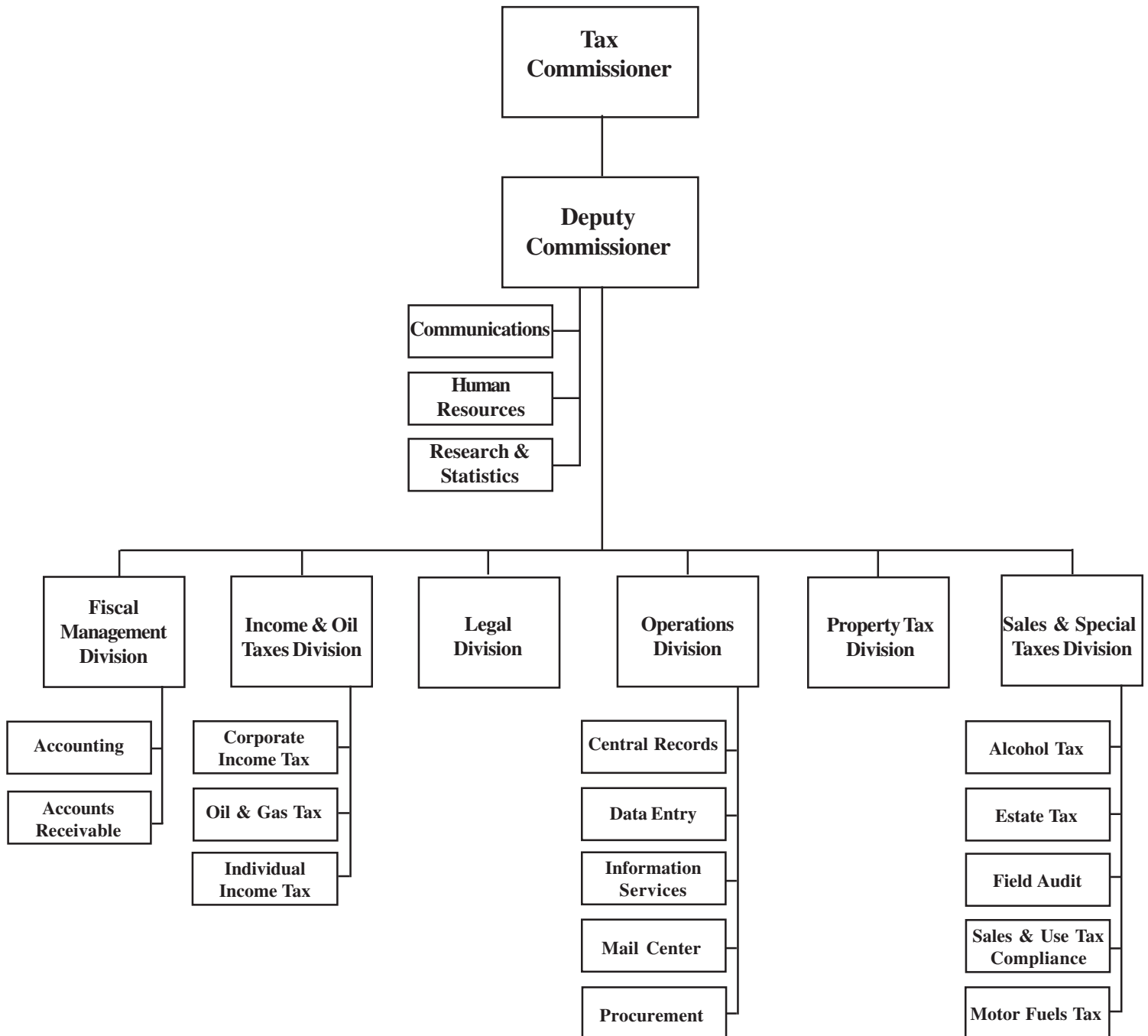
The Utilities Tax Section calculates and certifies the gross receipts tax on rural electric cooperatives to the counties. The counties collect the tax and distribute it to the political subdivisions where the cooperatives' lines are located.

Another responsibility of the Utilities Tax Section is administering the state severance tax on coal, the coal conversion privilege tax on electrical generating plants and coal gasification plants, and the tax on cooperative-owned transmission lines of 230 kilovolts or larger. The section audits reports of collections of these energy-related taxes. The Utilities Tax Section also prepares reports on the collection of these taxes and information for revenue distribution by the State Treasurer's Office, which is responsible for allocating revenue from these taxes among the state, the counties where the mines, plants and transmission lines are located, and a permanent Coal Development Trust Fund.

The Property Tax Division annually certifies to county directors of tax equalization in each of the state's 53 counties the average true and full agricultural value of farmland, as determined by North Dakota State University. It is this value on which the counties base their assessments of agricultural property.

The staff of the Property Tax Division in the 2001-2003 biennium included five full-time positions: the state supervisor of assessments, two property tax specialists, one audit technician, and one office assistant.

Office of State Tax Commissioner Organizational Chart June 2003



Future Directions

Legislation enacted during the 2003 Legislative Assembly impacts the administration of some of North Dakota's major taxes during the 2003-05 biennium and in the years beyond. The following summarizes significant tax legislation enacted by the 2003 Legislature.

Tax Amnesty Program

- The 2003 Legislature authorized a limited-time opportunity for individuals and businesses to file and pay back taxes without the threat of civil or criminal legal action. All state tax types were authorized to be included in the Tax Amnesty Program

Information Technology Functional Consolidation

- The 2003 Legislature mandated the functional consolidation of certain IT services, such as the file and print servers, application servers, database servers and e-mail. These services will be provided by the state's central Information Technology Division rather than housing servers in individual agencies.

Income Taxes

- The deduction for federal income taxes paid by corporations was removed and the corporation income tax rates were lowered. Effective beginning with the 2004 tax returns, the rates will range from 2.6% to 7% of taxable income. Prior to the law change, the rates ranged from 3% to 10.5% of taxable income.

- The option to carry back a current year corporation net operating loss to a previous year was repealed
- A new individual income tax deduction was created to allow National Guard and U.S. armed forces reserve members who are called into active duty to deduct any taxable compensation earned while on active duty outside North Dakota.
- Changes were made easing the restrictions for the seed capital investment tax credit program. Included in the legislation was a statement of intent that the seed capital investment tax credit provisions are to be the primary focus for encouraging the availability of seed capital or early stage financing for the 2003-05 biennium.
- The income tax withholding law was changed to require certain payroll service providers to use electronic data interchange or other electronic media to file the employer's withholding return (Form 306) and remit the withheld taxes.

Sales and Special Taxes

- The 2003 Legislature adopted the Streamlined Sales and Use Tax Agreement and modified the sales tax law to be in compliance with key aspects of the

Agreement. Generally, the purpose of the Streamlined Sales and Use Tax Agreement is to reduce the burden and complexity for both Main Street businesses and remote sellers by providing for a cooperative, simplified system for the application and administration of sales and use taxes throughout the country. The state's statutory changes become effective January 2006.

- The 2003 Legislature adopted an additional 1% sales tax on hotel and motel accommodations. The receipts from this additional tax are intended to assist with the promotion of the Lewis and Clark Celebration. The additional tax applies during the period of July 1, 2003 through June 30, 2007.

Property Tax

- The 2003 Legislature amended the capitalization rate section to provide that the capitalization rate for finding the capitalized average annual gross return may not be less than 9.5%. The effect of this change will allow certain agricultural land to be valued lower for property tax purposes than without the law change.

**Comparative Statement of Collections
for the 1999-01 Biennium and the 2001-03 Biennium**

Tax Type	1999-01 Biennium	2001-03 Biennium	Increase or Decrease Dollars	Percent
Sales and Use Taxes	\$666,598,903	\$696,635,643	\$30,036,740	4.51%
Individual Income Tax	411,729,980	399,450,731	(12,279,249)	-2.98%
Corporation Income Tax	99,134,855	87,628,335	(11,506,520)	-11.61%
Oil and Gas Taxes	129,888,009	119,679,502	(11,208,507)	-7.86%
Coal Taxes	78,498,528	77,649,385	(849,143)	-1.08%
Motor Fuels Taxes	224,623,456	226,887,864	2,264,408	1.01%
All Other Taxes and Fees	<u>226,381,684</u>	<u>252,690,289</u>	<u>26,308,605</u>	11.62%
Total Net Collections	\$1,836,855,415	\$1,860,621,749	\$26,766,334	1.29%

Sales and Use Taxes: The growth in this category is due to increases in taxable sales and purchases.

Individual Income Tax: The decrease in this category is due to sluggish income in the state as a result of the national recession, stock market losses, and the struggling agricultural economy.

Corporation Income Tax: The decrease in this category is due to the national recession and corporate tax planning strategies including the switch to pass-through types of businesses.

Oil and Gas Taxes: The decrease in this category is due to the world oil price declines and drops in oil production in the state.

All Other Taxes and Fees: The growth in this category is due primarily to the growth in city sales taxes and the collection of the wholesale liquor and beer taxes. (The wholesale liquor tax was previously collected by the Treasurer. The 2001 Legislative Assembly moved the collection of this tax to the Tax Department beginning in July 2001.)

Statement of Collections 2001 - 03 Biennium

Description	Fiscal Year 2002			Fiscal Year 2003			2001-03 BIENNIUM NET TOTAL
	Gross Collections	Refunds	Net Collections	Gross Collections	Refunds	Net Collections	
Sales & Use Tax	\$338,255,855.39	\$2,657,162.39	\$335,598,693.00	\$363,600,388.04	\$2,780,789.74	\$360,819,598.30	\$696,418,291.30
Motor Vehicle Excise Tax (1)	128,975.44	245.00	128,730.44	88,621.70		88,621.70	217,352.14
City Occupancy Tax	957,523.91		957,523.91	1,034,752.38		1,034,752.38	1,992,276.29
City Sales Tax	65,368,837.58		65,368,837.58	73,666,550.93		73,666,550.93	139,035,388.51
City Restaurant and Lodging Tax	2,223,865.27	2,328.01	2,221,537.26	2,439,337.79		2,439,337.79	4,660,875.05
Individual Income Tax	233,422,525.47	34,500,000.00 *	198,922,525.47	232,528,205.07	32,000,000.00 *	200,528,205.07	399,450,730.54
Corporate Income Tax	60,600,758.39	19,000,000.00 *	41,600,758.39	65,827,576.76	19,800,000.00 *	46,027,576.76	87,628,335.15
Financial Institutions Tax	11,320,941.96	1,508,794.00	9,812,147.96	10,314,457.17	536,441.00	9,778,016.17	19,590,164.13
Cigarette Tax (Cities)	1,313,835.69	58.51	1,313,777.18	1,220,881.18	275.90	1,220,605.28	2,534,382.46
Cigarette Tax (Tribe)	80,626.06		80,626.06	85,933.96		85,933.96	166,560.02
Cigarette Tax (GF)	17,913,353.86	799.62	17,912,554.24	16,849,823.89	3,770.56	16,846,053.33	34,758,607.57
Tobacco Tax	2,233,271.50	214.58	2,233,056.92	2,276,307.83		2,276,307.83	4,509,364.75
Oil & Gas Gross Production Tax	36,515,072.28		36,515,072.28	43,477,532.99		43,477,532.99	79,992,605.27
Oil Extraction Tax	18,157,395.29	1,088,549.58	17,068,845.71	23,368,934.71	750,865.57	22,618,069.14	39,686,914.85
Telecommunications Tax	9,847,784.26	4,813.11	9,842,971.15	9,948,305.12		9,948,305.12	19,791,276.27
Wholesale Liquor/beer Tax	5,507,532.37		5,507,532.37	5,677,276.88		5,677,276.88	11,184,809.25
Estate Tax	5,407,080.22		5,407,080.22	7,389,833.70		7,389,833.70	12,796,913.92
Miscellaneous Remittances	46,390.92		46,390.92	36,835.74		36,835.74	83,226.66
Coal Severance Tax	12,850,893.20		12,850,893.20	12,202,062.91		12,202,062.91	25,052,956.11
Coal Conversion Tax	25,349,890.28		25,349,890.28	27,246,538.59		27,246,538.59	52,596,428.87
Transmission Line Tax	411,860.25		411,860.25	411,860.25		411,860.25	823,720.50
Music and Composition Tax	84,901.21		84,901.21	89,902.08		89,902.08	174,803.29
Sales & Use Tax Cash Bonds	44,452.53	100,000.00	(55,547.47)	47,750.00	28,350.00	19,400.00	(36,147.47)
Fuel Dealers & Inspection Fees	48,805.00		48,805.00	43,095.00		43,095.00	91,900.00
Motor Vehicle Fuel Tax	74,383,338.94	2,105,000.00 *	72,278,338.94	76,148,302.25	1,844,000.00 *	74,304,302.25	146,582,641.19
Special Fuel Tax	39,691,778.64	335,000.00 *	39,356,778.64	41,408,444.09	460,000.00 *	40,948,444.09	80,305,222.73
Motor Fuel Tax - Cash Bond	8,000.00	8,000.00	0.00	6,000.00	1,000.00	5,000.00	5,000.00
Nongame Wildlife Fund	18,697.17		18,697.17	16,962.73		16,962.73	35,659.90
Centennial Tree Trust Fund	17,022.86		17,022.86	17,492.11		17,492.11	34,514.97
Organ Transplant Support Fund	16,278.58		16,278.58	14,371.73		14,371.73	30,650.31
Airline Tax	211,260.96		211,260.96	215,063.51		215,063.51	426,324.47
TOTAL COLLECTIONS	\$962,438,805.48	\$61,310,964.80	\$901,127,840.68	\$1,017,699,401.09	\$58,205,492.77	\$959,493,908.32	\$1,860,621,749.00

* Represents amounts transferred to refund reserve accounts - not actual refunds.

(1) Additional Motor Vehicle Excise Tax was collected by the ND Department of Transportation. Amounts collected by DOT were \$65,827,140.64 in FY02 and \$63,947,769.56 in FY03.

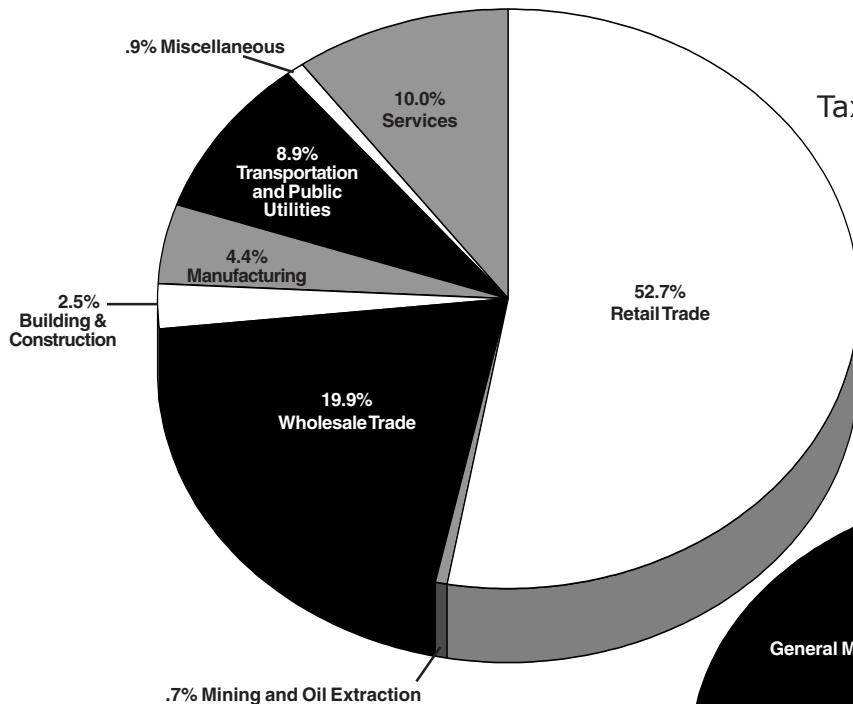
Net Collections For Fiscal Years Ended June 30, 1994 to 2003

TAX TYPE	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Sales and Use Taxes (1)	\$254,568,034(2)	\$282,460,362(2)	\$280,458,241(2)	\$307,657,943(2)	\$308,772,887(2)	\$331,175,284(2)	\$326,384,604(2)	\$340,214,298(2)	335,727,423(2)	360,908,220(2)
Individual Income Tax	138,879,059	141,923,858	152,087,864	163,732,247	177,904,251	181,389,034	198,287,830	213,442,150	198,922,525	200,528,205
Corporation Income Tax	50,727,400	44,027,738	49,047,417	50,300,520	65,543,025	57,877,194	47,528,001	51,606,853	41,600,758	46,027,577
Oil Extraction Tax	16,218,450	16,354,433	16,467,484	19,079,936	15,328,212	12,074,588	21,023,977	24,793,997	17,068,846	22,618,069
Gross Production Tax	22,118,770	23,787,276	26,905,996	34,772,117	29,521,309	22,705,995	38,041,008	46,029,027	36,515,072	43,477,533
Coal Taxes (3)	38,839,395	38,884,814	37,908,208	37,641,659	37,257,693	38,274,528	38,959,421	39,539,107	38,200,783	39,448,602
Motor Fuels Taxes (4)	85,549,102	89,495,693	96,044,324	103,727,317	105,131,399	103,050,448	111,937,585	112,685,871	111,635,118	115,252,746
All Other Taxes and Fees (5)	65,628,415	75,237,547	75,570,780	82,360,093	85,968,455	106,892,031	108,699,368	117,682,317	121,457,316	131,232,956
TOTAL NET COLLECTIONS	\$632,503,845	\$684,503,614	\$672,528,624	\$712,171,721	\$734,490,314	\$799,271,832	\$890,861,795	\$945,993,620	901,127,841	959,493,908

- (1) Includes sales and use tax, motor vehicle excise tax.
- (2) Effective July 1, 1993 the Department of Transportation collected and deposited the majority of the motor vehicle excise tax collections. These collections are not included in the amounts listed here. DOT collections of motor vehicle excise tax totaled \$44,378,942 in FY-94, \$45,394,726 in FY-95, \$48,676,651 in FY-96, \$51,242,411 in FY-97, \$54,421,777 in FY-98, \$51,998,566 in FY-99, \$59,955,616 in FY-00, \$58,425,033 in FY-01, \$65,827,141 in FY-02, and \$63,947,770 in FY-03.
- (3) Includes coal severance tax and coal conversion facilities privilege tax.
- (4) Includes motor vehicle fuel and special fuel taxes.
- (5) Includes cigarette tax, tobacco tax, estate tax, financial institutions tax, transmission lines tax, city sales tax, city lodging tax, music and composition tax, sales and use tax and motor fuel tax cash bonds, motor fuel license fees, solid waste management fees, nongame wildlife contributions, centennial trees contributions, organ transplant support contributions, drug tax, city restaurant and lodging, miscellaneous remittances, telecommunications tax, contractor's highway tax, and wholesale liquor tax.

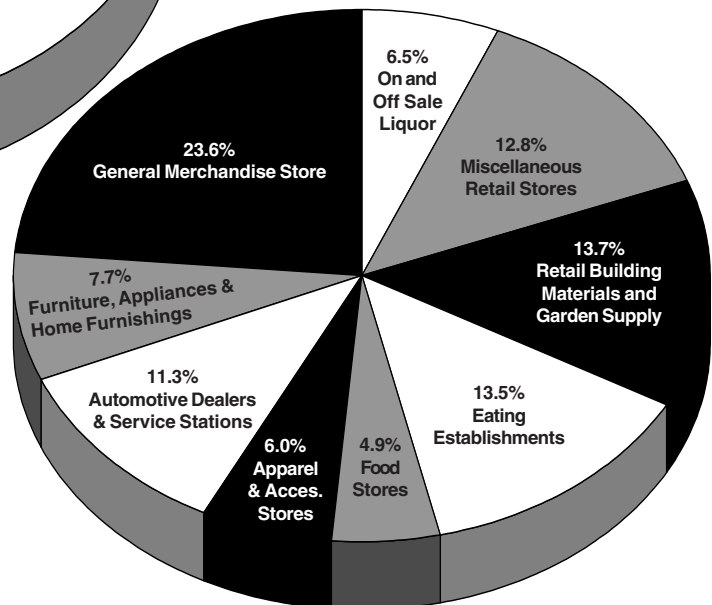
SOURCE: Comparative Statement of Collections, Office of State Tax Commissioner.

Taxable Sales and Taxable Purchases in the 2001-03 Biennium



Taxable Sales and Taxable Purchases
Breakdown By
Major Business Sectors

Taxable Sales and Taxable Purchases
Breakdown of
Retail Trade Sector



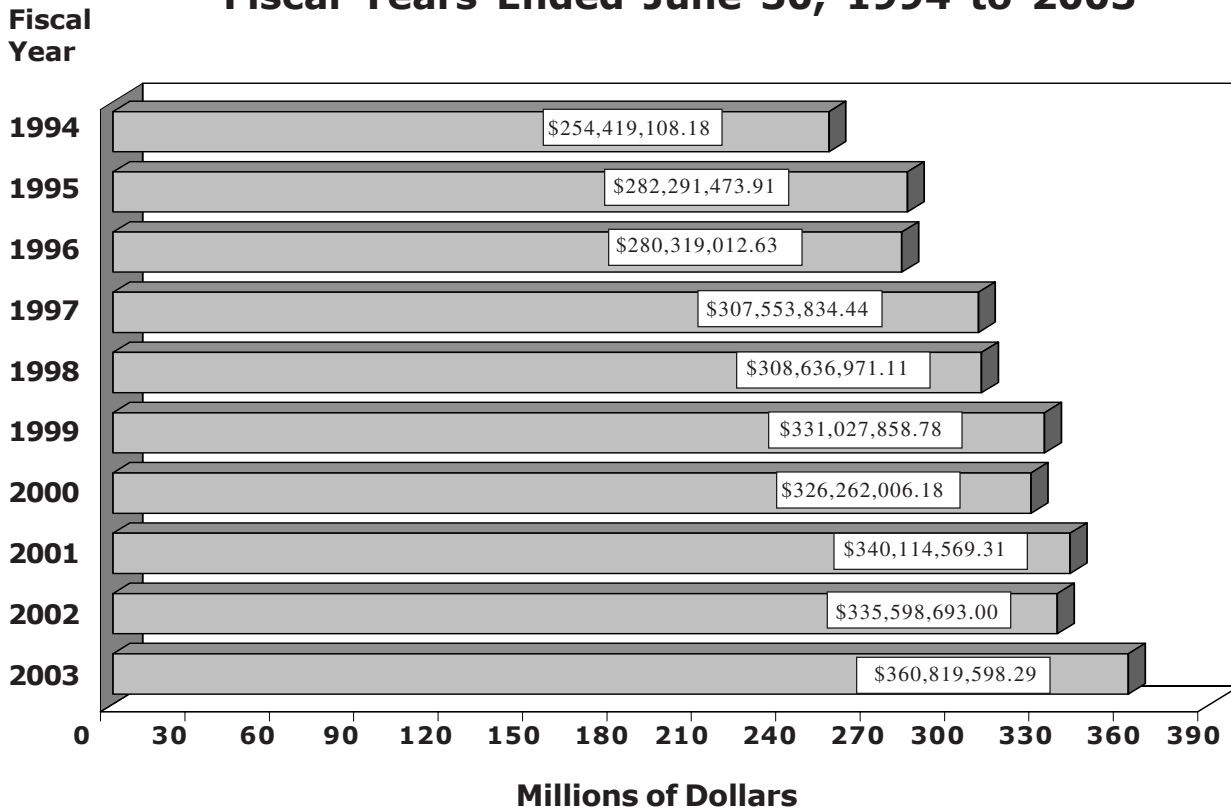
SOURCE: North Dakota Sales and Use Tax Quarterly Statistical Reports and North Dakota TX-1188 Records

The sales tax is levied upon the gross receipts from retail sales of tangible personal property; furnishings or service of steam, gas and communication services; recreation and amusement receipts; magazines and periodicals; leasing or renting of hotel, motel or tourist court accommodations; leasing or renting of tangible personal property

The use tax is imposed upon any tangible personal property purchased at retail for storage, use, or consumption in this state and not subject to the North Dakota sales tax, unless otherwise exempt by law. Generally this tax applies on purchases of tangible personal property at retail outside North Dakota for use in this state when such purchases are made from a retailer who does not collect a sales and use tax. Many purchases made over the Internet are subject to the use tax. Under these circumstances, the purchaser must remit the tax directly to the Office of State Tax Commissioner.

Sales Tax permit holders are categorized through the use of the Standard Industrial Classification System, generally referred to as "SIC" codes. The SIC system is used by government and business throughout the United States to facilitate record keeping and the compilation of statistics regarding business and industry. The SIC system is being changed to a new system, the North American Industrial Coding System, or NAICS. This system has not yet been adopted by the Office of State Tax Commissioner.

Sales and Use Tax Collections During Fiscal Years Ended June 30, 1994 to 2003



Distribution of Sales Tax Collections

	<u>Total Revenues</u>	<u>State General Fund</u>	<u>State Aid Distribution Fund</u>
Fiscal Year 1994	254,419,108.18	223,888,815.20	30,530,292.98
Fiscal Year 1995	282,291,473.91	248,416,497.03	33,874,976.88
Fiscal Year 1996	280,319,012.63	246,680,731.09	33,638,281.54
Fiscal Year 1997	307,553,834.44	270,647,374.28	36,906,460.16
Fiscal Year 1998*	308,636,871.11	271,606,220.79	37,030,650.32
Fiscal Year 1999*	331,027,858.78	297,895,606.46	33,132,252.32
Fiscal Year 2000	326,262,006.18	300,161,047.36	26,100,958.82
Fiscal Year 2001	340,114,569.31	312,905,418.95	27,209,150.36
Fiscal Year 2002	335,598,693.00	308,750,797.56	26,847,895.44
Fiscal Year 2003	360,819,598.29	331,954,030.38	28,865,567.91

*In addition to the revenue distributions shown here, there was a small amount of BTU tax revenue collected and deposited as a sales tax, but distributed as coal severance tax. BTU tax revenue totaled \$36,607.76 in FY 98 and \$59,906.06 in FY 99.

Sales and Use Tax

For taxable sales and purchases made after July 1, 1985, those businesses previously required to make monthly estimated payments were required to file monthly returns. Businesses required to file monthly returns continue to be allowed a deduction for administrative expenses of 1.5% of the tax up to a maximum of \$85.00 per month. The monthly filing deadline was moved from the 22nd day in the month following the sales month to the last day of the month following the sales month. However, the monthly filing due date for the May sales month of each odd-year remained on the 22nd day of June.

On January 1, 1987, the general sales and use tax rate was increased from 4% to 5%; the tax rate on liquor sales was increased from 5% to 6%; and the tax rate on farm machinery repair parts was reduced from 4% to 3%.

Effective July 1, 1987, the general sales and use tax rate was increased from 5% to 5.5%; the tax rate on farm machinery, farm machinery repair parts and new mobile homes was increased from 3% to 3.5% and the tax rate on sales of alcoholic beverages was increased from 6% to 6.5%. These law changes increased fiscal year 1988 collections.

On May 1, 1989, the general sales and use tax rate was increased to 6%; the tax rate on farm machinery, farm machinery repair parts and new mobile homes was increased to 4%; and the tax rate on alcoholic beverages was increased to 7%. A small portion of fiscal year 1989 collections is due to these rate increases.

Effective July 1, 1989, the sales tax base was broadened to include the furnishing of bingo cards, the sale of coffee, tea, cocoa, bottled water sold in containers of less than one gallon, and sales to state chartered credit unions. The 1989 Legislature also reduced the rate for equipment used in actual manufacturing of products (from testing to packaging), from 5.5% to 3%. The manufacturing company, however, must receive approval for the reduced rate or pay the tax and apply for a refund. The tax exemption for sales to residents of Montana was altered, exempting sales of \$50 or more. Additionally, Canadians were required to submit requests for refunds of sales tax paid.

In a Special Election December 5, 1989, the state's voters rejected two of the sales tax rate increases passed by the 1989 Legislature. The rate increases were in effect from May 1, 1989, through December 5, 1989. On December 6, 1989, the following rates were decreased:

- The general sales and use tax rate was decreased from 6% to 5%.
- The tax rate on farm machinery, farm machinery repair parts, and new mobile homes was decreased from 4% to 3%.

Effective July 1, 1991, manufacturing or processing machinery and equipment used by new or expanding manufacturers or agricultural producers was exempted from the 3% sales tax rate. Additionally, an exemption was created for production equipment in new, large lignite-burning power plants and for other tangible personal property used in construction of the power plant.

Effective January 1, 1993, the sales tax rate for natural gas was reduced from 5% to 4%, and was further reduced in 1% increments becoming 2% effective January 1, 1995.

Effective July 1, 1993, the exemption for manufacturing machinery and equipment was broadened to include recycling machinery and equipment. The definition of what equipment qualifies for the manufacturing exemption was further broadened in a July 1994 special session to include all equipment utilized until final transportation from the site, and to include research and development equipment.

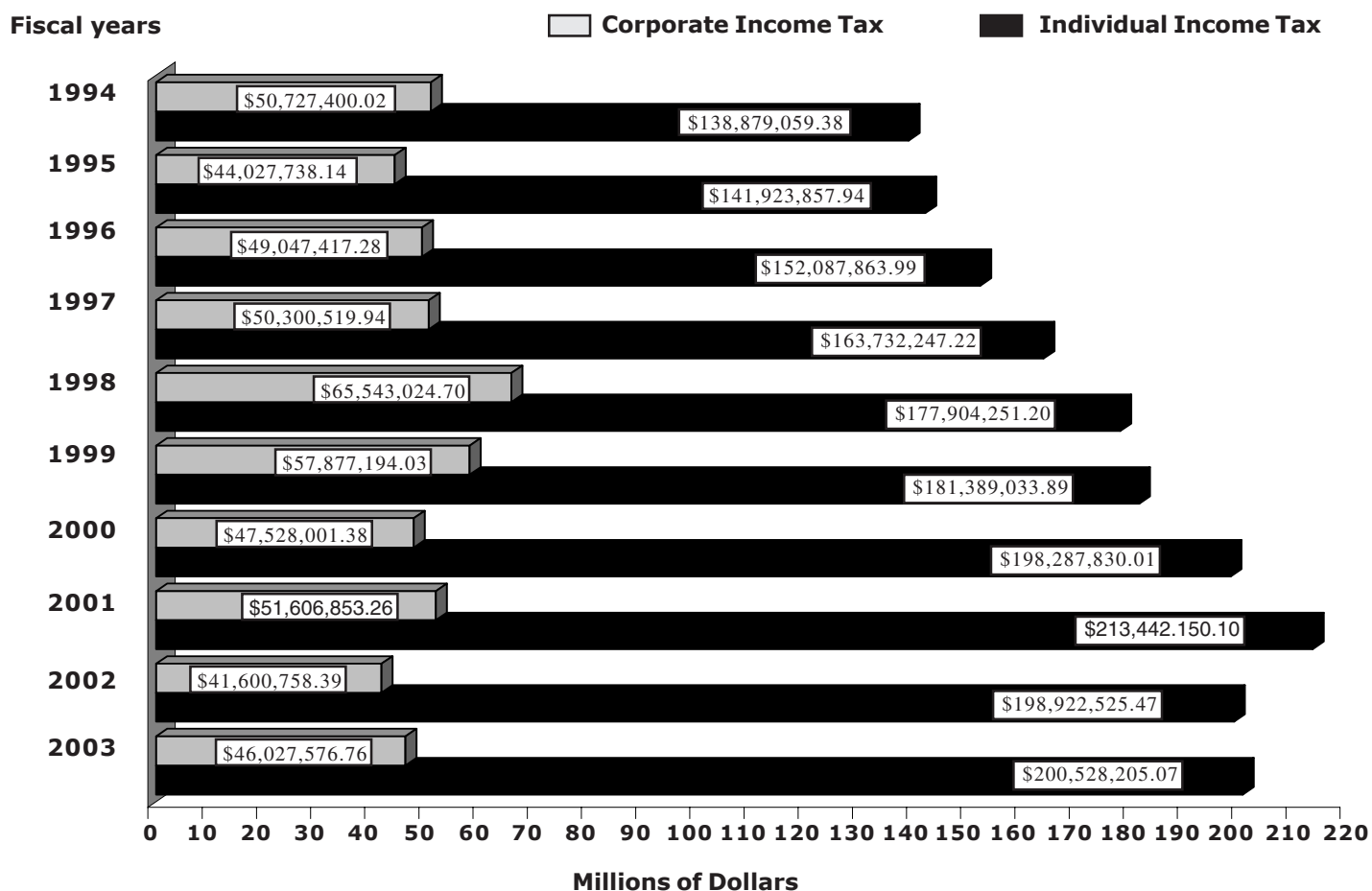
Effective July 1, 1995, the sale of recapping and retreading services for tires became subject to the sales tax.

Effective July 1, 1997, the exemption for purchases made by an out-of-state political subdivision was modified to include only those that exempt purchases made by a North Dakota political subdivision.

Effective May 1, 1999, the sales tax rate on used farm equipment and farm repair parts was decreased from 3% to 1.5%.

Effective July 1, 2002, used farm equipment and farm repair parts became exempt from sales tax.

Net Individual and Corporate Income Tax Collections During Fiscal Years Ended June 30, 1994 to 2003



Individual Income Tax

The individual income tax rates were 14% of adjusted federal income tax liability for tax years 1994 through 2000. Beginning in 2001, the individual income tax rates range from 2.1% to 5.54% of North Dakota taxable income. After years of steady growth, the drop in individual income tax collections in FYs 2002 and 2003 reflect primarily stock market losses and the resultant drop in adjusted gross income.

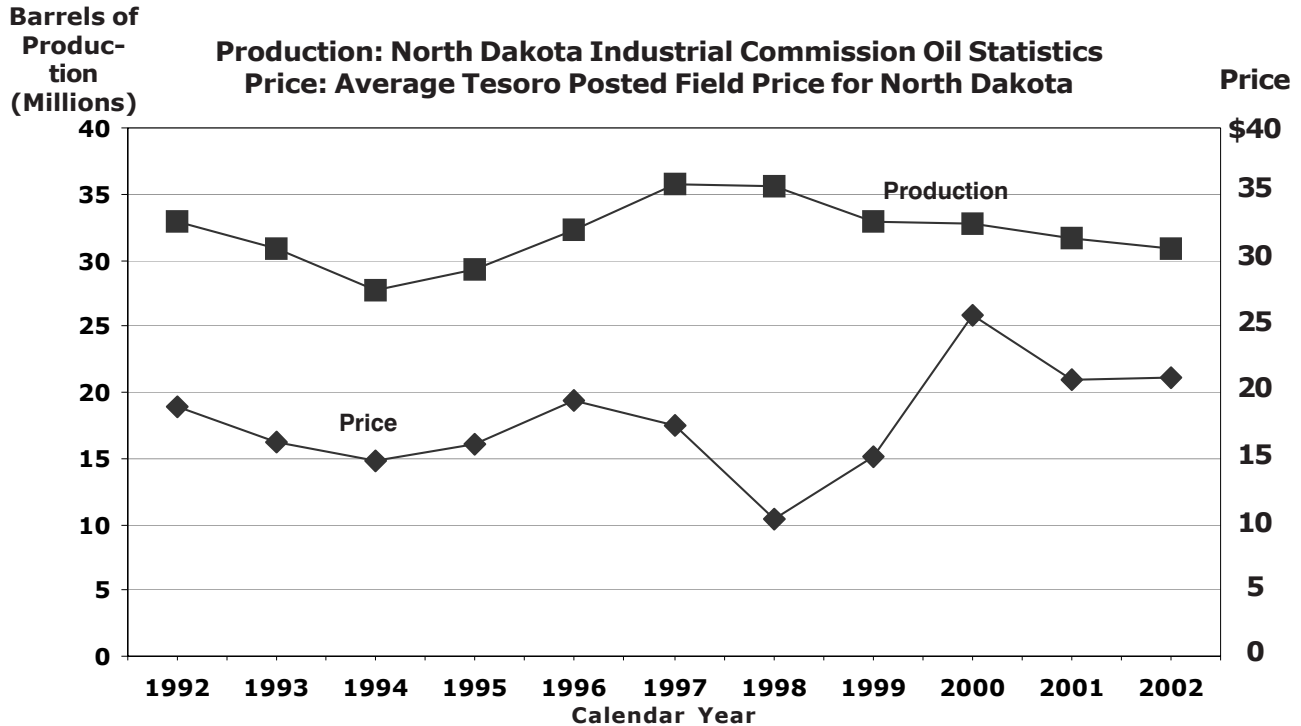
Individual income tax revenues are deposited in the State General Fund.

Corporate Income Tax

Corporation income tax revenues fluctuate in accordance with changes in national corporation profits and world oil prices. Audit collections also vary significantly from year to year.

Corporation income tax revenues are deposited in the State General Fund.

Annual Crude Oil Production in North Dakota and Domestic Oil Price Per Barrel During Calendar Years 1992 to 2002



Oil and Gas Gross Production and Oil Extraction Tax Revenues 2001-03 Biennium

		<u>Net Revenue</u>	<u>State General Fund Share of Net Revenue</u>
Oil & Gas Gross Production Tax	Fiscal Year 2002	\$36,515,072.28	\$20,530,727.44
Oil & Gas Gross Production Tax	Fiscal Year 2003	43,477,532.99	24,985,792.75
Oil Extraction Tax	Fiscal Year 2002	17,068,845.71	10,466,737.21
Oil Extraction Tax	Fiscal Year 2003	22,618,069.14	<u>13,581,967.50</u>
Total State General Fund Share			\$69,565,224.90
Statutory Cap			<u>62,000,000.00</u>
Transfer to Permanent Oil Trust Fund			\$7,565,224.90

Oil and Gas Gross Production Tax

The gross value of oil production at the well, less any part which is specifically exempt, is taxed at a rate of 5% in lieu of property taxes on the oil and gas producing properties. Gas production is taxed on a volume basis at a rate determined by the movement of a fuels cost index. During fiscal year 2002, gas production was taxed at the rate of 7.72¢ per 1,000 cubic feet (MCF). In fiscal year 2003, the tax rate was 824¢ per MCF.

Thirty-three percent of the first one-fifth of the oil and gas gross production tax revenue is distributed to the Oil Impact Grant Fund. The remaining 67% of the first one-fifth of the tax revenue is distributed to the State General Fund. The remaining four-fifths of the tax revenue is distributed between the county in which the oil or gas is produced and the State General Fund according to the following distribution schedule: The first \$1 million each year is distributed 75% to the county and 25% to the State General Fund; the second \$1 million, 50% to the county, 50% to the State General Fund; amounts over \$2 million, 25% to the county, 75% to the State General Fund. However, the amount that any one county can receive from each fiscal year of production in the 1997-99 biennium is limited according to population as follows: population up to 3,000, no more than \$3.9 million; population between 3,000 and 6,000, no more than \$4.1 million; population of 6,000 and greater, no more than 4.6 million. When a county reaches its maximum amount allowed, the entire four-fifths share of subsequent revenue from fiscal year production is deposited in the State General Fund. The county allocation is apportioned as follows: 45% to the county general fund, 35% to the school districts within the county and 20% to the incorporated cities.

Any oil tax revenue in the State General Fund in excess of \$62 million in any given biennium is transferred to the Permanent Oil Taxes Trust Fund.

Oil Extraction Tax

The oil extraction tax became effective January 1, 1981, as a result of an initiated measure passed by the citizens of North Dakota. The gross value of oil production at the well, less any part which is specifically exempt, was taxed at 6.5%.

The 1987 Legislative Assembly changed the oil extraction tax with respect to new wells, secondary and tertiary recovery projects, and low production (stripper) wells. Oil produced from new wells drilled and completed after April 27, 1987, was exempted from the oil extraction tax during the first 15 months following the well's completion. After the 15 month exemption period, the oil produced from the qualifying new well was subjected to a reduced oil extraction tax rate of 4%. The 4% tax rate may also apply to oil produced from a well in a qualifying secondary or tertiary recovery project. The legislature expanded the definition of stripper well property to allow more wells to qualify for the stripper well exemption.

Effective July 1, 1987, the oil extraction tax exemption for the private royalty interest was eliminated.

The 1989 Legislative Assembly provided a one year exemption from the oil extraction tax for qualifying work-over projects.

The 1991 Legislative Assembly provided a time-limited exemption from the oil extraction tax for incremental oil produced from an enhanced recovery project. Upon expiration of the exemption, incremental oil produced by the project qualifies for a 4% oil extraction tax rate. Nonincremental oil may qualify for a reduced tax rate of 4%.

The 1993 Legislative Assembly modified the definition of a qualifying work-over project. Upon completion of the work-over exemption, the project qualifies for a 4% oil extraction tax rate. The 1995 Legislature also modified exemptions and created new ones.

In the 2001-03 biennium, the oil extraction tax revenue was distributed according to a formula which allocated 60% of the revenue to the State General Fund, 20% to the Resources Trust Fund and 20% divided equally between the Common Schools Trust Fund and Foundation Aid Stabilization Fund. Any oil tax revenue in excess of \$62 million, in any given biennium, is transferred to the permanent oil taxes trust fund.

Coal Conversion Tax 2001-03 Biennium

Kilowatt Hours Produced During the 2001-03 Biennium

	<u>Fiscal Year 2002</u>	<u>Fiscal Year 2003</u>
Total Kwh Produced	28,529,643,731	29,546,423,028

Distribution of Coal Conversion Tax Revenue - 2001-03 Biennium

<u>Distribution Fund</u>	<u>Fiscal Year 2002</u>	<u>Fiscal Year 2003</u>
Counties	\$2,797,182.54	\$2,903,989.90
State General Fund	<u>22,552,707.74</u>	<u>24,342,548.69</u>
Total Revenue Collected	\$25,349,890.28	\$27,246,538.59

Coal Conversion Facilities Tax: Generally, most facilities that process or convert coal are subject to the coal conversion facilities tax unless expressly exempted by statute. Electrical generating plants that have a single generating unit with the capacity of 120,000 kilowatts or more are subject to the coal conversion facilities tax. Effective July 1987 electrical generating plants became subject to two conversion tax levies. One levy is .25 mill times 60% of installed capacity times the number of hours in the taxable period. The revenue from this levy is distributed 65% to the State General Fund and 35% to the county in which the plant is located. The other levy is .25 mill per kwh of electricity produced for sale. The revenue from this levy is distributed to the State General Fund.

Also subject to the coal conversion facilities tax is the coal gasification plant. This tax is the greater of: (A) 2.5% of gross receipts, excluding revenues derived from by-products (up to a maximum of 20% of gross receipts) and revenue from synthetic natural gas produced in excess of 110 cubic feet per day, or (B) 7¢ on each 1,000 cubic feet of synthetic natural gas produced up to 110 million cubic feet per day. The U.S. Department of Energy operated the coal gasification plant from August 1, 1985, through October 31, 1988, during which time the plant was exempt from the coal conversion facilities tax. The plant was purchased by the Dakota Gasification Company, which began taxable production November 1, 1988. The new owner was exempt from the state's share (65%) of the tax for five years from the date of purchase because of provisions enacted by the 1987 Legislative Assembly. (This exemption expired October 31, 1993). Throughout the five year exemption from the state's share, the plant was subject to the county share of the tax (35%).

The 1989 Legislative Assembly enacted a special coal conversion facilities tax on coal beneficiation plants of 20 cents per ton of beneficiated coal produced for sale or 1¼% of gross receipts, whichever is greater. An exemption was made for beneficiated coal produced in excess of 80% of the plant design capacity.

The 1991 Legislative Assembly enacted a five-year exemption from part or all of the tax for new lignite-burning electrical generating plants.

The 1997 Legislative Assembly exempted from the Coal Conversion Facilities Tax the revenue from the sale of by-products, to a maximum of thirty-five percent of gross receipts, for a four-year period beginning January 1, 1997. Revenue from the sale and transportation of carbon dioxide for use in enhanced recovery of oil and natural gas was also exempted from this tax.

The 2001 Legislative Assembly increased the tax rate on installed capacity to .65 mill times 60% of installed capacity times the number of hours in the taxable period. The tax rate on synthetic natural gas increased to \$.135 per 1,000 cubic feet. The distribution was changed as well. Generally, 85% is allocated to the state general fund and 15% to the county in which the plant is located.

Coal Severance Tax 2001-03 Biennium

Tonnages Severed During the 2001-03 Biennium

Taxable Tons Severed:

<u>County</u>	<u>Fiscal Year 2000</u>	<u>Fiscal Year 2001</u>
Bowman	34,426	45,916
McLean	7,762,395	7,925,519
Mercer	17,274,522	17,486,551
Oliver	5,584,358	5,645,111
Williams	10,975	12,888
Total Taxable Tons Severed	30,666,676	31,115,985

Distribution of Coal Severance Tax Revenue - 2001-03 Biennium

<u>Distribution Fund</u>	<u>Fiscal Year 2002</u>	<u>Fiscal Year 2003</u>
Counties (70%)	\$8,024,591.33	\$8,108,965.89
Land Board (30%)	3,439,110.47	3,475,271.04
State General Fund (0%)	775,793.99	0
Lignite Research (add'l. 2¢ per ton)	<u>611,397.41</u>	<u>617,825.98</u>
Total Revenue Collected	\$12,850,893.20	\$12,202,062.91

Coal Severance Tax

The Coal Severance Tax was enacted by the 1975 North Dakota Legislative Assembly. This tax is applied to coal severed from the ground on a rate per ton basis. The 1975 law provided for a 50¢ per ton with an escalator clause that increased the tax 1¢ per ton for each three point increase in the Wholesale Price Index. The 1975 law was made effective July 1, 1975.

The revenues collected during the 1975-77 biennium were distributed according to the following formula:

1. 35% to a special fund to be granted by the Impact Office to impacted political subdivisions.
2. 30% to a special trust fund to be administered by the State Land Board.
3. 5% to coal-producing counties.
4. 30% to the State General Fund.

The 1975 law was replaced with the 1977 law, changing the rate and distribution formula. The 1977 law, effective July 1, 1977, provided for a 65¢ per ton with an escalator clause that increased the tax 1¢ per ton on a quarterly basis for every one point increase in the Wholesale Price Index.

The 1977 law also changed the distribution of revenues to the following formula:

1. 35% to a special fund to be granted by the Impact Office to impacted political subdivisions.
2. 15% to a special trust fund to be administered by the State Land Board.
3. 20% to coal-producing counties.
4. 30% to the State General Fund.

The 1977 law was replaced with the 1979 law. The 1979 law, effective July 1, 1979, provided for an 85¢ per ton tax with an escalator that would increase the tax 1¢ per ton on a semi-annual basis for every four point increase in the Wholesale Price Index (now known as the Producer Price Index). The distribution of revenues remained the same.

The 1981 Legislative Assembly exempted from the coal severance tax coal used by the state or any of its political subdivisions and coal used for heating buildings within the state. Coal used for heating purposes became subject to the sales tax.

The 1985 Legislative Assembly exempted from the coal severance tax coal used in agricultural processing or sugar beet refining plants within North Dakota or adjacent states. Also, the tax rate was reduced by 50% for coal burned in a cogeneration facility designed to use renewable resources to generate 10% or more of its energy output.

The 1987 Legislative Assembly amended the coal severance tax law, removing the escalator clause and reducing the tax rate from \$1.04 to 75¢ per ton and enacting an additional temporary tax of 2¢ per ton dedicated to lignite research. The 1987 law also changed the distribution of the revenue to the following formula:

1. 15% to a special trust fund to be administered by the State Land Board
2. 35% to coal-producing counties
3. 50% to the State General Fund

The 1989 Legislative Assembly made the two cents per ton tax for lignite research a permanent tax. A resolution was passed which placed on the Primary Election ballot a constitutional amendment to allow up to 50% of the tax collected and deposited in the permanent trust fund during a biennium to be appropriated by the Legislative Assembly for lignite research, development and marketing. The measure was approved by the voters and became effective July 1, 1990.

The 1993 Legislative Assembly limited the amount of coal production on which a coal producing county has to share its severance tax with a nearby nonproducing county. The uses of the trust fund were expanded to include loans for school construction. Coal shipped out of state after June 30, 1995, and before July 1, 2000, was made exempt from the state's 50% portion of the tax; counties may grant a partial or complete exemption from the county's 35% portion. A constitutional amendment was placed on the June 1994 Primary Election ballot that allowed appropriations from the trust fund for clean coal demonstration projects approved by the North Dakota Industrial Commission and the United States Department of Energy. The amendment was approved by the voters.

The 2001 Legislative Assembly reduced the tax rate from 75¢ per ton to 37.5¢ per ton and eliminated the distribution to the State General Fund. The allocation was changed to 30% to the coal development trust fund and 70% to the coal producing counties.

Transmission Line Tax Collections

Collections represent payments made by cooperatives that owned or operated electrical transmission lines of 230 kilovolts or larger. They were taxed at the rate of \$225.00 per mile.

	<u>1999-01 Biennium</u>		<u>2001-03 Biennium</u>	
	<u>FY-2000</u>	<u>FY-2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Transmission Line Tax	\$410,582.25	\$410,582.25	\$411,860.25	\$411,860.25

SOURCE: Property Tax Division, Office of State Tax Commissioner

Rural Electric Cooperatives

Rural electric cooperatives are nonprofit cooperative corporations engaged in the distribution or transmission of electric energy primarily for consumption in rural areas. Rural electric cooperatives also include those nonprofit cooperative corporations engaged in the generation of electric energy primarily for consumption in rural areas. The electrical energy generating units of such plants are under 100,000 kilowatts of generating capacity. Such plants are taxable pursuant to N.D.C.C. ch. 57-33.

Rural electric cooperatives are taxed at 1% of their gross receipts each year for the first 5 years and 2% each year thereafter in lieu of taxes on all property except land. The tax of each rural electric cooperative is certified by the Tax Commissioner to the counties for collection and is allocated by the county auditor to the taxing district in which the rural electric line or plant is located.

Taxes Certified for Collection for the Years: *

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Rural Electric Cooperative	\$5,779,347.79	\$5,781,209.79	\$5,325,544.69	\$5,487,051.29

SOURCE: Property Tax Division, Office of State Tax Commissioner

*These taxes are certified in the fall of the indicated years and payable in the following year.

Telecommunications Carriers

Beginning with tax year 1998, all telecommunications companies including mutual and cooperative telephone companies pay a gross receipts tax at the rate of 2½ percent of adjusted gross receipts. The tax is payable to the State Tax Commissioner and is in lieu of all real and personal property taxes on property directly used by a telecommunications carrier in its telecommunications operations. There is a standing appropriation of \$8.4 million which the State Treasurer distributes annually to counties and their political subdivisions according to a statutory formula, regardless of the amount generated by the gross receipts tax.

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Telecommunications Tax Assessed	\$8,617,396.77	\$9,125,030.04	\$9,817,350.94	\$9,998,777.86

SOURCE: Property Tax Division, Office of State Tax Commissioner

Financial Institutions Tax

The 1997 North Dakota Legislature passed legislation changing the tax law covering financial institutions. The legislation repealed North Dakota Century Code chs. 57-35, 57-35.1 and 57-35.2, and replaced them with a new chapter, N.D.C.C. ch. 57-35.3. The legislation is effective for taxable years beginning on or after January 1, 1997.

The tax under N.D.C.C. ch. 57-35.3 is imposed on every financial institution for the privilege of transacting business in North Dakota. The definition of financial institution includes not only banking entities, but also bank holding companies, production credit associations and leasing companies.

In general, the tax liability of the financial institution is determined by multiplying North Dakota taxable income by seven percent (7%). This amount, which may not be less than fifty dollars (\$50.00), is divided between the state general fund and the financial institution tax distribution fund for eventual distribution to the counties. The state general fund receives 2/7's of the tax while the financial institutions tax distribution fund receives 5/7's of the tax. The state general fund portion of the tax must be paid on or before April 15 following the end of the taxable year. The financial institution tax distribution fund portion of the tax must be paid on or before January 15 of the second year following the taxable year.

Financial Institutions Tax Collections

2001-03 Biennium

	<u>FY 2002</u>	<u>FY-2003</u>
Total Net Collections	\$ 9,812,147.96	\$ 9,778,016.17
State General Fund	\$ 2,565,548.04	\$ 3,691,841.48
Financial Institution Distribution Fund	\$ 7,246,599.92	\$ 6,086,174.69

Cigarette and Tobacco Products Net Tax Collections

	<u>1999-01 Biennium</u>		<u>2001-03 Biennium</u>	
	<u>FY-2000</u>	<u>FY-2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
3¢ per package cigarette tax distributed to cities on population basis	\$1,406,518.33	\$1,339,060.51	\$1,313,777.18	\$1,220,605.28
41¢ per package cigarette tax distributed to State General Fund	\$19,333,389.49	\$18,299,503.76	\$17,912,554.24	\$16,846,053.33
28% of the wholesale price of tobacco products distributed to State General Fund	\$1,982,647.74	\$2,040,283.37	\$2,233,056.92	\$2,276,307.83

The cigarette tax was increased effective July 1, 1993, increasing the State General Fund Tax from 26¢ to 41¢ per package. The tobacco products tax distributed to the State General Fund also increased effective July 1, 1993, from 22% to 28% of the wholesale purchase price.

Standing Rock Sioux Tribe Cigarette and Tobacco Tax:

	<u>1999-01 Biennium</u>		<u>2001-03 Biennium</u>	
	<u>FY-2000</u>	<u>FY-2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Amount distributed to the Tribe	\$68,602.22	\$71,725.15	\$80,626.06	\$85,933.96
Amount distributed to the State General Fund	\$25,696.36	\$26,866.13	\$21,970.58	\$23,417.00

The Office of State Tax Commissioner acts as an agent for the Tribe in the collection of a tribal cigarette and tobacco tax. The tax rates are identical to the state cigarette and tobacco tax rates. Seventy-five percent of the collection, less a 3% administrative fee is returned to Standing Rock Sioux Tribe. The administrative fee plus 25% of the collections are deposited into the State General Fund.

SOURCE: Comparative Statement of Collections, Office of State Tax Commissioner.

Airline Tax

Operating real property of air transportation companies is assessed by the State Board of Equalization. The taxes are computed and collected by the Tax Commissioner and certified to the State Treasurer for distribution. The taxes upon air transportation companies are allocated by the State Treasurer to the city or municipal airport authority where each company makes regularly scheduled landings according to the ratio that the value of the company's assessable property at a given city or municipal airport bears to the total value of the company's assessable property located in North Dakota.

TAXES CERTIFIED TO STATE TREASURER FOR THE YEARS: *

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Airlines	\$220,425.60	\$204,809.80	\$211,679.32	\$215,003.56

* Airline assessments of real property are determined by the State Board of Equalization in August of each year. The tax due amounts are computed in the spring of the following year using the average mill rate for cities operating airports served by scheduled airlines.

Aviation Fuel, Motor Vehicle Fuel, and Special Fuel Taxes Collections and Disbursements 2001-2003 Biennium

Aviation Fuel, Motor Vehicle Fuel, & Special Fuel Collections - Tax, Penalty, Interest, & Fees	FY-2002 Dollars	FY-2003 Dollars
Aviation Fuel:		
Aviation Gasoline - at \$.08 Per Gallon	\$205,517.26	\$206,799.71
Jet Fuel - at \$.08 Per Gallon	867,420.21	841,308.57
Penalty and Interest	360.27	84.99
<i>Total Collections</i>	\$1,073,297.74	\$1,048,193.27
Total Refunded	336,843.34	385,227.30
<i>Net Collections</i>	\$736,454.40	\$662,965.97
Motor Vehicle Fuel:		
Gasoline - at \$.21 Per Gallon	\$59,062,271.50	55,017,407.59
Gasohol - at \$.21 Per Gallon	14,871,488.20	20,715,165.85
Penalty and Interest	38,080.84	23,730.19
<i>Total Collections</i>	\$73,971,840.54	\$75,756,303.63
Total Refunded	2,076,988.31	1,965,705.01
<i>Net Collections</i>	\$71,894,852.23	\$73,790,598.62
Special Fuel:		
Diesel-Heating-Kerosene-Propane - at \$.21 Per Gallon	\$33,094,902.18	\$34,520,398.54
Diesel-Heating-Kerosene-Propane - at 2% of Selling Price	5,397,926.33	5,710,900.59
Penalty and Interest	10,504.73	16,530.58
<i>Total Collections</i>	\$38,503,333.24	\$40,247,829.71
Total Refunded	72,602.81	129,275.12
<i>Net Collections</i>	\$38,430,730.43	\$40,118,554.59
Consolidated Laboratories Inspection Fees:		
From Motor Vehicle Fuel	\$90,996.92	92,330.89
From Special Fuels (except propane)	92,186.05	89,916.55
<i>Total Collections</i>	\$183,182.97	\$182,247.44
License Fees:		
Aviation Fuel Tax Licenses	\$220.00	\$100.00
Motor Vehicle Fuel Tax Licenses	580.00	340.00
Special Fuels (Diesel-Heating-Kerosene) Tax Licenses	760.00	460.00
Liquefied Petroleum Gas Tax Licenses	520.00	120.00
Motor Carrier Temporary Trip Permits	46,725.00	42,075.00
<i>Total Collections</i>	\$48,805.00	\$43,095.00
Cash Bonds:	\$8,000.00	\$6,000.00
Standing Rock Sioux Tribal Tax Collections:		
Gasoline/Gasohol - at \$.21 Per Gallon	\$320,145.28	\$299,667.73
Diesel Fuel - at \$.21 Per Gallon	23,317.81	22,504.56
<i>Total Collections</i>	343,463.09	\$322,172.29
<i>Grand Total of Collections</i>	\$114,131,922.58	\$117,605,841.34
<i>Grand Total of Refunds</i>	2,486,434.46	2,480,207.43
<i>Grand Total of Net Collections</i>	\$111,645,488.12	\$115,125,633.91
Aviation Fuel, Motor Vehicle Fuel, & Special Fuel Disbursements		
Aeronautics Commission Special Fuel (4% of Price)	\$303,060.85	\$328,157.67
Aeronautics Commission Special Fuel (\$.08 Per Gallon)	435,795.47	365,135.60
Highway Distribution	103,647,734.07	107,299,507.59
Highway Distribution (Earmarked for Ethanol Production Incentive)	142,057.79	126,440.81
Township Highway Aid Fund	5,092,539.67	5,229,932.98
Agricultural Products Utilization Commission	286,161.51	254,787.72
Agricultural Research Fund	568,231.16	505,763.24
Refund Reserve Accounts	2,440,000.00	2,304,000.00
General Fund	183,182.97	182,247.44
Cash Bonds	8,000.00	6,000.00
Operating Expense Fund	681,696.00	681,696.00
Standing Rock Sioux Tribe	343,463.09	322,172.29
<i>Total Disbursements</i>	\$114,131,922.58	\$117,605,841.34

Aviation Fuel, Motor Vehicle Fuel, and Special Fuel Taxes Taxable Gallons 2001-2003 Biennium

Aviation Fuel, Motor Vehicle Fuel, & Special Fuel Taxable Gallons	<u>FY-2002</u> <u>Gallons</u>	<u>FY-2003</u> <u>Gallons</u>
Aviation Fuel:		
Aviation Gasoline - at \$.08 Per Gallon	2,564,428	2,623,745
Jet Fuel - at \$.08 Per Gallon	10,884,539	10,369,505
<i>Total Taxable Gallons</i>	13,448,967	12,993,250
Gallons on Which Tax \$.08 Per Gallon Tax was Refunded and 4% tax assessed	7,914,668	7,835,771
<i>Net \$.08 Taxable Gallons</i>	5,534,299	5,157,479
Motor Vehicle Fuel:		
Gasoline - at \$.21 Per Gallon	287,253,545	267,865,489
Gasohol - at \$.21 Per Gallon	71,923,119	101,107,576
<i>Total Taxable Gallons</i>	359,176,664	368,973,065
Gallons on Which Tax was Refunded	14,965,893	13,418,634
<i>Net Taxable Gallons</i>	344,210,771	355,554,431
Special Fuel:		
Diesel-Heating-Kerosene-Propane - at \$.21 Per Gallon	159,899,715	166,462,335
Diesel-Heating-Kerosene-Propane - at 2% of Selling Price	326,123,925	314,124,119
<i>Total Taxable Gallons</i>	486,023,640	480,586,454
<i>Grand Total of Taxable Gallons</i>	858,649,271	862,552,769
<i>Grand Total of Gallons on Which Tax was Refunded</i>	14,965,893	13,418,634
<i>Grand Total of Taxable Gallons</i>	843,683,378	849,134,135

Aviation Fuel: A per gallon tax is levied on all aviation fuel. For this biennium the tax was \$.08 per gallon. Consumers purchasing aviation fuel for use in aircraft may request a refund of the \$.08 per gallon tax. When a refund is granted, the consumer is assessed a tax of 4% of the price of the fuel. The 4% tax is assessed in lieu of the \$.08 per gallon tax and is deducted from the refund.

Motor Vehicle Fuel: A per gallon tax is levied on all motor vehicle fuel (gasoline and gasohol). For this biennium the tax was \$.21 per gallon. The tax is refundable when the fuel is used in nonlicensed equipment for an agricultural, industrial or railroad purpose. Refunds to industrial consumers are reduced by \$.015 per gallon. Of the \$.015 per gallon withheld, \$.01 per gallon is Township Highway Aid Fund revenue and \$.005 per gallon is deposited into the Agriculturally Derived Fuel Tax Fund. Refunds to agricultural consumers are reduced by \$.08 per gallon. Of the \$.08 per gallon withheld, \$.01 per gallon is Township Highway Aid Fund revenue, \$.01 per gallon is earmarked for ethanol production incentives, \$.02 per gallon is deposited into the Agriculturally Derived Fuel Tax Fund, and \$.04 per gallon is deposited into the Agricultural Research Fund.

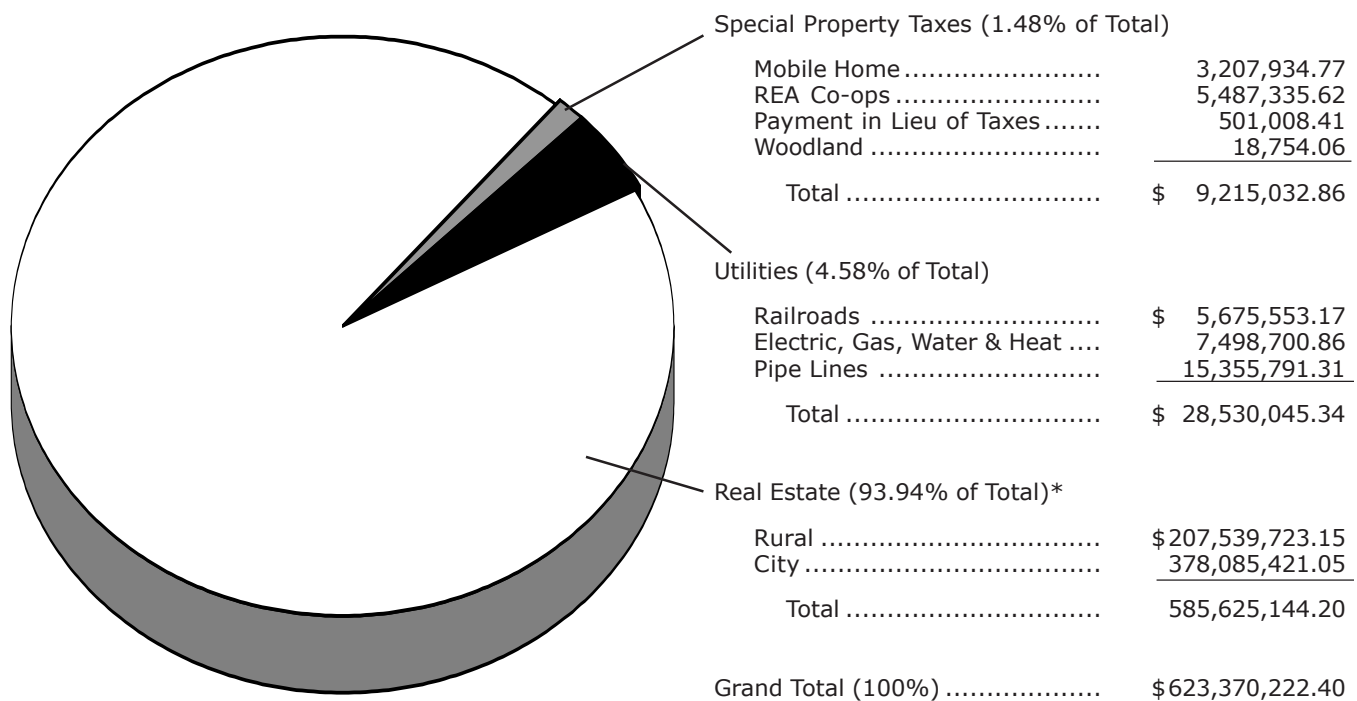
Special Fuels: A per gallon tax is levied on propane and kerosene used in licensed vehicles and on all clear diesel and heating fuels. For this biennium the tax was \$.21 per gallon. A tax of 2% is levied on propane and kerosene exempt from the per gallon tax and on all dyed diesel and heating fuels. Special fuel taxes are not refundable.

Administration: The fuel taxes are administered by the Tax Commissioner. The Motor Fuel Tax Section is part of the Sales and Special Taxes Division. A portion of the motor fuel tax collections are set aside in an operating fund for the administration of the tax. The remaining tax collections are transferred to the funds listed under the tax disbursement section.

Tribal Taxes: The Standing Rock Sioux Tribe passed an ordinance imposing a \$.21 per gallon motor vehicle fuel tax and a \$.21 per gallon special fuel tax. The ordinance has been in place since January 1, 1999. The State of North Dakota and the Office of State Tax Commissioner entered into an agreement to collect the tax for the Tribe.

Sources of General Ad Valorem Property Taxes, Special Property Taxes and Special Assessments

(Levied in 2002 - Payable in 2003)



* Includes all special assessments.

Source: Report of 2002 Property Valuations and Property Taxes Levied in North Dakota compiled by the Office of State Tax Commissioner.

Property Tax

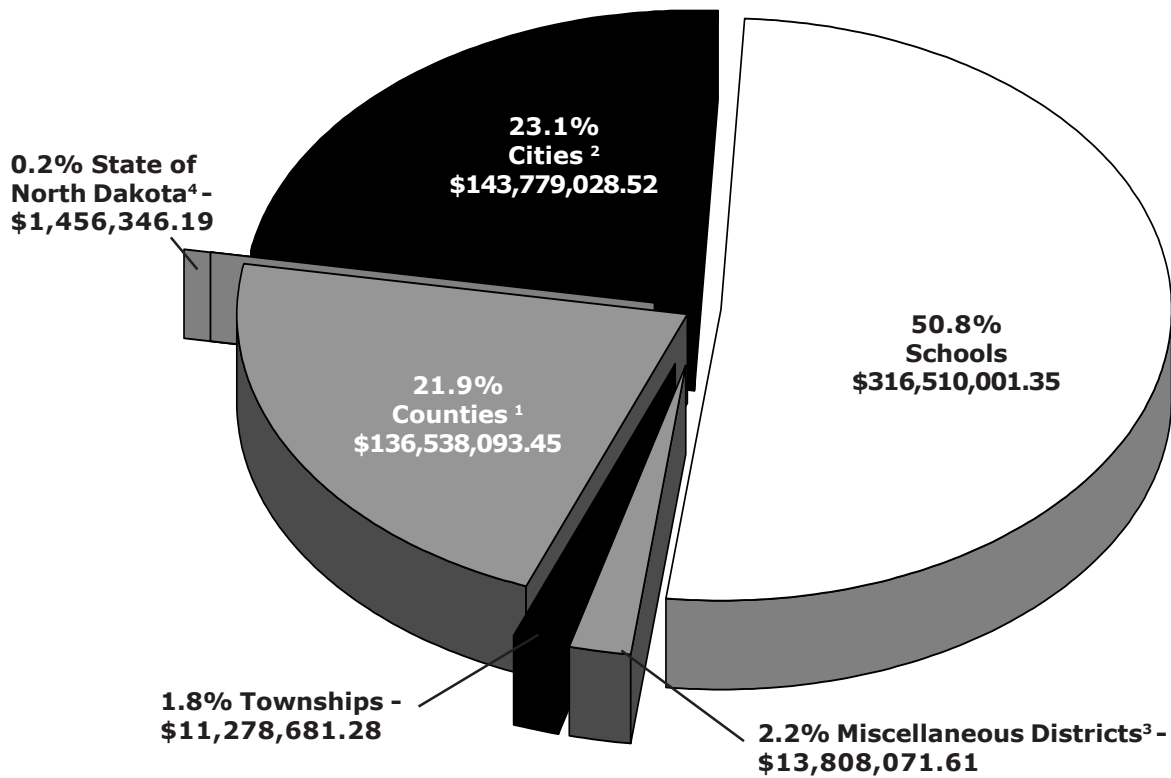
Real property owned by a corporation, partnership, individual, estate or trust is subject to a tax based on its valuation. The property tax, except the tax on the operating property of railroads and other utilities, is assessed locally. The property tax is collected and distributed by the county to the county, cities, townships, school districts, and other taxing districts. The North Dakota Century Code has provided that assessments be at true and full value and that assessed value be computed at 50% of true and full value. Also, true and full value of agricultural property is based upon productivity. Beginning with taxes levied in 1981 (payable in 1982) and thereafter, the assessed value is 50% of true and full value and taxable value is a percentage of assessed value according to the percentages established by the Legislature for the various classes of property as follows: residential property at 9%, commercial, railroad and airline property at 10% and agricultural property at 10%. Taxable value of centrally assessed wind turbine electric generators constructed before January 1, 2001, is 3%.

The assessed valuation of railroad and public utility property is centrally determined by the State Board of Equalization. Rural electric cooperatives and all telecommunications companies are subject to a gross receipts tax.

Also, instead of a property tax, large electrical generating plants are subject to a tax on installed capacity and electricity produced for sale through the coal conversion facilities privilege tax. Large cooperative-owned transmission lines are taxed on a per mile basis. The taxes on electrical production and large transmission lines are not included in the above.

Distribution of General Ad Valorem Property Taxes Special Property Taxes and Special Assessments

(Levied in 2002 - Payable in 2003)



Grand Total - \$623,370,222.40

¹ Including County Park Districts, County Libraries, County Airports, Unorganized Townships, Water Resource and Joint Water Resource Districts.

² Including City Park Districts, City Special Assessments, and tax increments.

³ Garrison Diversion, Rural Fire Districts, Southwest Water Authority, Soil Conservation Districts, Rural Ambulance Districts, Hospital District, Recreation Service Districts and All Special Assessments for Rural Districts.

⁴ Constitutional one mill levy for the Medical Center at the University of North Dakota.

Source: Report of 2002 Property Valuations and Property Taxes Levies in North Dakota compiled by the Office of State Tax Commissioner.

Property Tax Refunds & Credits For Senior Citizens and Persons with Permanent and Total Disabilities

<u>Tax Year</u>	<u>Number of Persons Receiving Renter's Refunds</u>	<u>Renter Refunds Paid</u>	<u>Number of Persons Receiving Homeowner's Credits</u>	<u>Homeowner's Credits Tax Amount</u>
1988	1,881	\$163,357	7,546	\$2,142,139
1989	1,657	149,666	7,307	2,158,650
1990	1,601	149,705	7,188	2,336,992
1991	1,582	151,600	7,029	2,303,437
1992	1,534	155,205	6,743	2,254,921
1993	1,563	166,739	6,576	2,191,385
1994	1,626	175,554	6,376	2,160,304
1995	1,590	177,782	6,095	2,379,016
1996	1,499	166,841	5,680	2,072,720
1997	1,482	165,060	5,278	1,979,210
1998	1,454	173,370	4,943	1,852,373
1999	1,508	190,211	4,457	1,817,938
2000	1,417	178,406	4,232	1,815,019
2001	1,329	173,754	4,341	1,768,001
2002	1,288	172,224	4,060	1,676,737

The North Dakota Legislature has provided a homestead property tax credit program since 1969. Persons 65 years of age or older, or totally and permanently disabled, who meet the requirements of the program are eligible to receive a credit to reduce property taxes on their home. Qualified renters receive a partial refund of their rent. Since 1977 the maximum income eligibility limit has been adjusted by the Legislature as follows: from \$8,000 to \$9,000 in 1979, to \$10,000 in 1981, to \$12,000 in 1985, to \$13,000 in 1989, to \$13,500 in 1995, and to 14,000 in 1999.

The credit for eligible homeowners is a reduction in the taxable value of the homestead as determined by the following schedule:

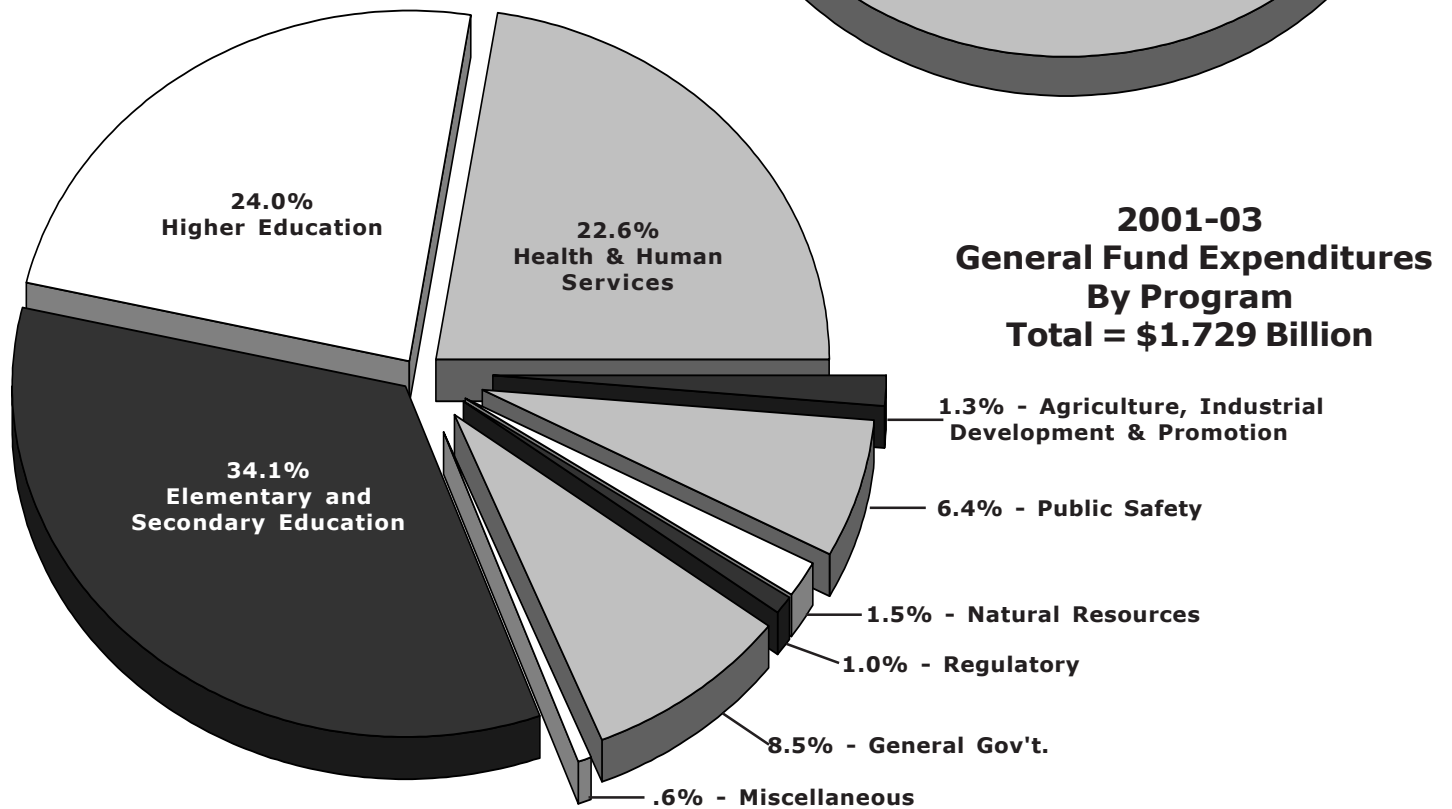
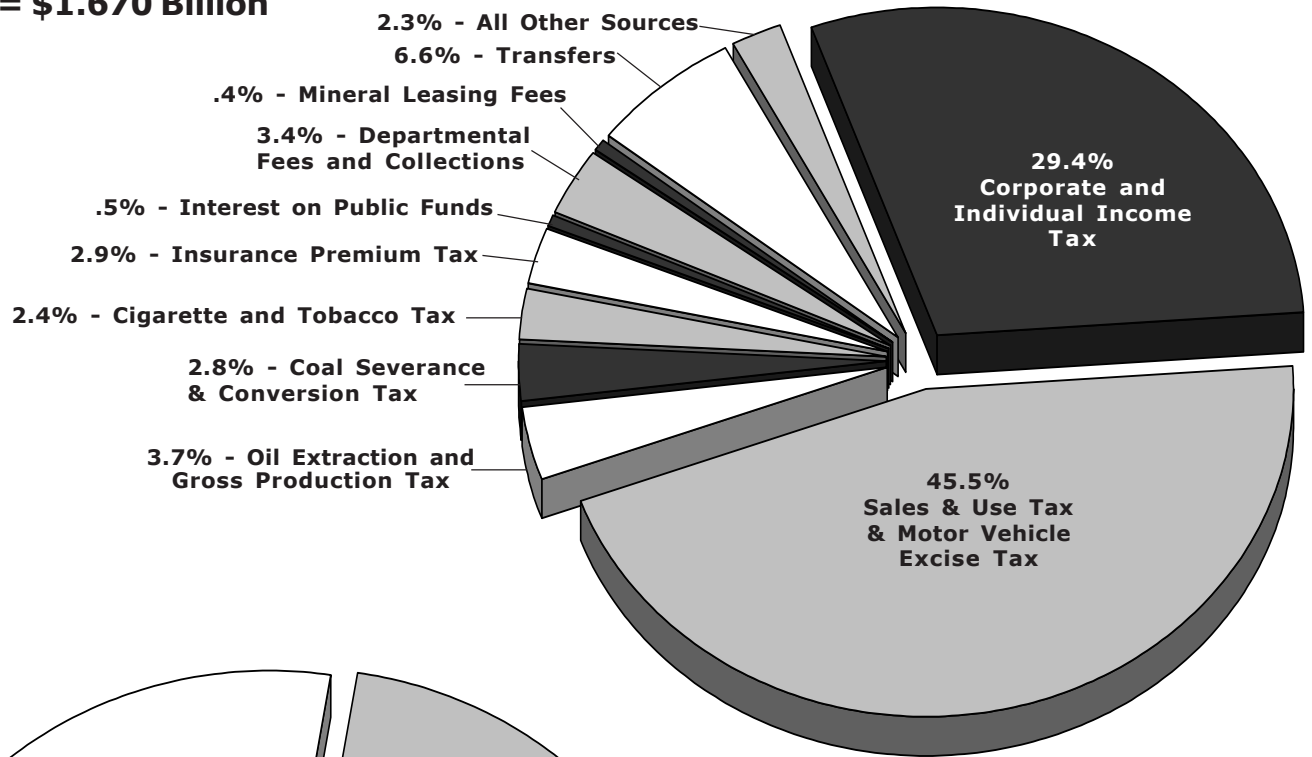
For Taxes Levied in 2001 and 2002 (Payable in 2002 and 2003)

<u>Income of</u>	<u>Reduction</u>	<u>Maximum Reduction</u>
\$ 0 - \$ 8,000	100%	\$2,000
\$ 8,001 - \$ 9,500	80%	1,600
\$ 9,501 - \$ 11,000	60%	1,200
\$ 11,001 - \$ 12,500	40%	800
\$ 12,501 - \$ 14,000	20%	400

Eligible renters receive a refund of a portion of rent deemed to represent property taxes when 20% of their total annual rent exceeds 4% of their total annual income. Charges for such services as heat, light and furniture must be excluded when determining the annual rent payment for the purposes of renter's refund. The maximum refund allowable to a renter is \$240.

State General Fund Revenues and Expenditures in the 2001-03 Biennium

2001-03 General Fund Revenue Sources Total = \$1.670 Billion



SOURCE: Office of Management and Budget, November 2003.

Statement of Expenditures 2001-03 Biennium

Description	Commissioners Division	Legal Division	Fiscal Mgmt. Division	Sales & Special Taxes Division	Income & Oil Taxes Division	Property & Utility Taxes Division	Operations Division	TOTAL
Salaries and Wages								
FY 02	410,117.74	250,170.51	1,071,792.21	1,754,152.99	1,588,879.08	193,657.89	687,296.60	5,956,067.02
FY 03	444,783.05	253,958.86	650,096.56	1,812,839.50	1,494,626.45	224,741.94	1,101,149.55	5,982,195.91
Information Services								
FY 02	16,202.76	1,764.59	20,806.74	18,957.87	15,988.14	2,138.82	712,889.41	788,748.33
FY 03	27,054.06	1,614.67	8,957.53	18,875.61	14,985.13	1,860.81	875,648.00	948,995.81
Operating Expenses								
FY 02	95,602.37	30,140.32	392,976.21	115,258.36	225,449.85	11,229.17	184,704.17	1,055,360.45
FY 03	198,620.34	36,562.51	63,336.50	231,317.29	210,733.32	10,963.29	478,897.79	1,230,431.04
Equipment								
FY 02	.00	.00	.00	.00	.00	.00	6,865.00	6,865.00
FY 03	2,360.00	.00	1,638.43	1,638.44	.00	.00	208,890.94	214,527.81
Multistate Tax Commission								
FY 02	.00				150,201.00			150,201.00
FY 03	.00				151,016.00			151,016.00
City Sales Administration								
FY 02				12,005.12				12,005.12
FY 03				37,994.88				37,994.88
Motor Fuels Federal Grant								
FY 02				35,284.15				35,284.15
FY 03				8,341.42				8,341.42
TOTAL								
FY 02	521,922.87	282,075.42	1,485,575.16	1,935,658.49	1,980,518.07	207,025.88	1,591,755.18	8,004,531.07
FY 03	672,817.45	292,136.04	724,029.02	2,111,007.14	1,871,360.90	237,566.04	2,664,586.28	8,573,502.87
TOTAL 01-03	1,194,740.32	574,211.46	2,209,604.18	4,046,665.63	3,851,878.97	444,591.92	4,256,341.46	16,578,033.94

Source: Fiscal Management Division, Office of State Tax Commissioner

Resources Available From The Office of State Tax Commissioner

Commissioner's Division

Biennial Report of the Office of State Tax Commissioner
North Dakota Taxpayer Bill of Rights
State and Local Taxes in North Dakota: An Overview and Comparative Guide
Business Reports, Forms and Licenses Required in the State of North Dakota
Career Opportunities (brochure)

Income and Oil Taxes Division

Income Tax Law and Rules
Oil and Gas Tax Law and Rules
Practitioner's Newsletter
Supplemental Tax Guide for U.S. Armed Forces
Withholding Information for Employers
Income Taxation of American Indians Guidelines
Income Taxation of Nonresident aliens Guidelines
Information at the Source Return Requirements and Procedures
Oil and Gas Newsletter
Notification of the Gas Tax Rate

Property Tax Division

Assessor's Supervised Home Study Manual
Assessor's Manual
Certification of North Dakota Assessment Officials (brochure)
Levy Limitation Schedule
North Dakota Sales Ratio Report
Proceedings of the State Board of Equalization
Property Tax Credit for Senior Citizens or Disabled Persons (brochure)
Property Tax Exemption for Improvements to Residential or Commercial Buildings or Structures (brochure)
Property Tax Guidelines
Property Tax Valuations and Property Taxes Levied in ND
Property Taxation Manual
Property Tax Newsletter
Tax Director Teaching Manual
Quarterly Report of Tons of Coal Severed
North Dakota Tax Incentives for Business (brochure)
Tax Incentives for Wind, Solar, or Geothermal Devices (brochure)

Sales and Special Taxes Division

Estate Tax Law, Rules and Regulations
Guidelines
Motor Vehicle Fuel Tax Newsletter
Sales and Use Tax Law, Rules and Regulations
Sales and Use Tax Quarterly Newsletter
Sales and Use Tax Statistical Report
Special Fuels Tax, Motor Fuel Tax and Aviation Fuel Tax Laws; Administrative Rules

Many of these resources are available on our Web site; please visit us online at www.ndtaxdepartment.com or write:

Office of State Tax Commissioner
600 E. Boulevard Ave., Dept. 127
Bismarck, ND 58505-0599

Office of State Tax Commissioner
State Capitol
600 E Boulevard Avenue, Dept. 127
Bismarck ND 58505-0599



E-mail: taxinfo@state.nd.us
www.ndtaxdepartment.com
www.discovernd.com

Phone: (701) 328-2770
Fax: (701) 327-3700